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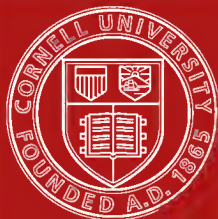
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# BUDGET MAKING



# BUDGET MAKING

A HANDBOOK ON THE FORMS AND  
PROCEDURE OF BUDGET MAKING  
WITH SPECIAL REFERENCE TO STATES

BY

ARTHUR EUGENE BUCK

NATIONAL INSTITUTE OF PUBLIC ADMINISTRATION;  
STAFF MEMBER OF THE NEW YORK BUREAU  
OF MUNICIPAL RESEARCH



D. APPLETON AND COMPANY  
NEW YORK LONDON

1921

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PRINTED IN THE UNITED STATES OF AMERICA

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**261 Broadway, New York City**

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## PREFACE

It is not the purpose of this handbook to discuss the philosophy and theory of the budget, but to present model budget forms and to outline the procedure of budget making in such a way as to be of assistance to those engaged in the actual work of preparing budgets. Although the book is written with special reference to state budget making, it is also applicable to city budget making. Illustrations of the various forms and methods of budget making are drawn from the practices of both state and city governments. It is hoped that the treatment of the subject is such as to make this book of value not only to administrative officers and members of legislative bodies, but also to the general public and students of government.

The outline in Chapter II of all state budget-making authorities and their staff agencies makes this chapter somewhat of a catalogue of facts. Although this was not the intention of the writer, it seemed that the detailed information could not be omitted and at the same time a comprehensive discussion be given of a very important question in budget making, namely, who should prepare the budget and what assistance is needed. The discussion of the technique of practical budget making begins with Chapter III and extends through Chapter X. Chapters XI and XII are added because of the great importance of proper administrative organization and methods in the carrying out of the budget plan after it has been formulated and adopted.

Valuable suggestions have been received from several persons engaged in actual budget-making work who have read parts or all of the manuscript. The writer is also indebted to his associates of the Bureau of Municipal Research for much helpful advice.

A. E. BUCK



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# BUDGET MAKING

## CHAPTER I

### THE BUDGET AND ITS RELATION TO GOVERNMENT WORK

One of the most important features of any government is the control that is exercised over the raising and spending of public money. Each year a government must make certain expenditures, the amount of which depends upon the scope of its activities, the volume of work undertaken and the manner of carrying on this work. Each year these expenditures must be met. This requires the raising by taxation or otherwise of an equivalent amount of money. As a result, adjustments must be made year after year between the needs of the government and its income. Out of this situation arises the need for scientific financial planning, in other words, the need for a budget system.

The term "budget system" has recently become one of our most common phrases. Already 46 states have provided by statute or by constitutional amendment for the establishment of such a system. Scores of cities throughout the country are using budget methods in conducting their finances. Recently Congress provided for the establishment of a budget system for the national Government. Such a system involves the formulation

of the fiscal policy of the government and the execution of that policy. Its essential elements are: (1) a document, or series of documents, setting forth a comprehensive financial plan for the government; and (2) a procedure for formulating, reviewing, and adopting this plan, and for carrying it into effect.

### *The Budget—What It Is*

The budget, in the strict sense of that term, is a complete financial plan for a definite period, which is based upon careful estimates both of the expenditure needs and of the probable income of the government. That is, the plan must present two sides, an expenditure side and an income, or revenue, side.

The finances of a family furnish a simple illustration of what the budget is. Certain necessary expenditures for such things as food, clothing, and housing must be met. Other expenditures for such things as carfare, medical attention, insurance, taxes, amusements, and recreation are more or less necessary. These, taken together, make up the total expenditures of the family. Then there is the income from such sources as salaries, earnings from business, interest from deposits or loans, dividends, etc., which, taken together, constitute the total income of the family. Thus we have, on the one side, the spending requirements of the family, and, on the other side, the income to meet these requirements. The expenditures for the different classes of things should bear a certain proportion to each other and the total expenditures should bear a definite relation to the total income of the family, unless we are to accept Bret Harte's advice to young men: "Always live within your income even if you have to borrow money to do it!" To determine the proper

proportion of the different expenditures and their relation as a whole to the total income, some planning in advance is necessary. When this planning is properly done, we have what may be called a family budget.

Turning from private to public finances, a state government, for example, must make expenditures to carry on its different activities such as health, education, charities, and public works. It must meet its debt obligations, if it has any, and it must usually provide for the purchase of some property and for the construction of certain permanent improvements. To meet these expenditures, the state government collects revenues of various kinds, such as taxes, licenses, fees, and fines, and, in addition, it may borrow money. In order to determine the expenditures that should be made for the different activities, the state authorities need to take into consideration the relation of the needs of each activity to that of every other activity and to the needs of the state as a whole, and to pass upon the total expenditures of the state only in comparison with the total income of the state. When this is properly done and set up in document form, it becomes a budget.

### *Budget Making and What It Involves*

Effective budget-making procedure constitutes a complete cycle of operations. The recording of information may be taken as the beginning of the cycle. Next comes the preparation of the estimates, then the examination and careful weighing of these estimates in the light of experience and recorded data, and then the formulation, review, and adoption of the financial plan for the future period. Following this is the execution of the plan and the recording of more information to be used in the prep-

aration of the next budget. And so the cycle is completed. This is the interesting and desirable feature about budget-making; it is continuous. When applied to our system of government, the budget, therefore, insures a certain continuity of policy despite frequent administrative changes.

While each budget should be complete in itself, it is, at the same time, only a link in the ever lengthening chain of the government's financial experience. The fiscal policies that enter into the budget are not the outgrowth of a single year's planning or a single year's work, but are usually evolved over a period of years. And the effect of some of them extends perhaps far into the future. In projecting an institutional building program, a road-building program, or river and harbor improvements, plans for such developments may and should look ahead five or ten years. To finance such projects a bonding policy may be adopted that will place obligations upon the government for years to come. For these reasons, financial planning for the going concern of government involves far more than merely formulating a year-to-year or biennium-to-biennium program. It involves a calculation of the obligations and tax burdens that have been placed upon future years by bond issues. A government may reduce its tax burdens for a time by borrowings and by deferred payments, but eventually these obligations will have to be met and then the tax burden will become doubly onerous. Such conditions need to be set forth clearly on the basis of existing laws and commitments, so that current policies may be shaped accordingly. This is as much a part of the work of budget making as is planning for the immediate future.

*Public Opinion and the Budget*

If popular government is to continue successfully, it must do so on the basis of informed public opinion. The public must take an intelligent interest in the affairs of government. There is no better means by which the people can know about the work of their government than through a properly prepared budget. The budget must give attention not only to the classification, distribution, and control of expenditures, but also to questions of revenue, taxation, and public debt. The taxpaying public, which now includes practically every individual, is particularly interested in the means by which expenditures are to be financed. Since the government can spend only what it takes from the people, and this amount is limited by their capacity and willingness to pay taxes; it is very important that they should be given full information about the work of the government. It is not enough that the budget set forth certain facts and figures concerning past, present, and proposed expenditures, and past, present, and anticipated income of the government, but it should do so in such a way as to enlist the interest and support of the people in the financing of the government's work. The budget must be accurate and complete, and, at the same time, it must be simple in form and as free from technicalities as possible. To describe fully how such a budget can be prepared is now the main task before us.

## CHAPTER II

### BUDGET-MAKING AUTHORITIES AND THEIR STAFF AGENCIES

#### I. BUDGET-MAKING AUTHORITIES

One of the first questions to be settled by a government in adopting a budget system is the determination of the agency to be responsible for preparing the budget. As a matter of convenience this agency may be designated the *budget-making authority*. In constituting the budget-making authority, it is necessary to take into consideration the organization and the existing methods and procedure of the government. This accounts largely for the diverse character of the agencies that have been constituted by states and cities to prepare the budget.

In most of the states the budget-making authority is either the governor or a board. Some states, like Illinois, have sought by administrative reorganization to center full responsibility in the executive; others, like Wisconsin, have sought to build up expert staffs to handle most of the activities and have placed these staffs under the direction of boards, the members of which have long and overlapping terms of office. In states of the former type the governor has become the budget-making authority, in states of the latter type a board, or super-board, generally composed of representatives of the more important administrative boards, has been constituted for this purpose. Most states, however, that have adopted budget methods have not yet attempted administrative reorganization, and in these states either the governor, or a

board, or a legislative committee acts as the budget-making authority.

In a large proportion of the cities the chief executive, that is, the mayor or the manager, formulates the budget plan. Among commission-governed cities, the budget is prepared by the commissioners acting as administrators and authorized by them sitting as a council. In a number of cities the budget is prepared by a board, usually called a board of estimate, composed of members representing the more important administrative departments and, in most cases, the council. In a few cities an agent or committee of the council prepares the budget.

### *Classification of Budget-Making Authorities*

As indicated by the above brief statement, the budget-making authorities of states and cities may be classified under three general types, namely, (1) the executive type, when the chief executive officer is responsible for the formulation of the budget; (2) the board type, when a group of administrative, or administrative and legislative, officers is responsible for the preparation of the budget; and (3) the legislative type, when the legislative body, through one of its committees or agents, formulates the budget. Only in the executive type is the budget-making authority of such a character that responsibility can be definitely placed for the formulation of the financial plan.

### *The Executive Type*

The budget plans of 24 of the 46 states that have provided either by statute or constitutional amendment for budgetary procedure may be classified as belonging to the executive type, the governor being responsible for

the initial budget plan. These states are as follows: Arizona, Colorado, Delaware, Idaho, Indiana, Illinois, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, Ohio, Oklahoma, South Carolina, Utah, Virginia and Wyoming.<sup>1</sup> The budget plans of three of these states introduce variations from the true executive type, which should be noticed. The budget law of Indiana provides that the state examiner of the state board of accounts (composed of the governor, auditor, and state examiner appointed by the governor) shall compile the estimates, which the governor shall transmit to the legislature together with executive recommendations. Under the provisions of the New Hampshire budget law, the state treasurer (appointed by the legislature) compiles the estimates and the governor-elect makes recommendations thereon to the legislature. The South Carolina budget law provides that the chairmen of the house ways and means committee and of the senate finance committee shall sit with the governor at the public hearings on the estimates, but responsibility for submitting budget recommendations to the legislature is placed upon the governor.

In practice the governor of New Jersey requires the assistance and criticism of the state comptroller and the state treasurer (both appointed by the legislature) in reviewing the estimates and in formulating the budget recommendations for the legislature. Likewise, the governor of Virginia designated (1920) an advisory board composed of two senators and three representatives of the legislature to assist him in the preparation of the budget.

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<sup>1</sup> See Appendix I for a complete list of the citations of all state budget laws.

The recently adopted national budget plan belongs to the executive type, the President being responsible to Congress for the budget recommendations.

The best examples of the executive type of budget in cities are found in the centralized-mayor and the manager forms of government. Toledo, Cleveland, and Denver are perhaps the best examples of the centralized-mayor form of city government. In these cities, the organization is such as to place the mayor in a position not only to plan effectively, but to carry out the plan when it has been voted by the council. Dayton, Akron, Houston, and Grand Rapids are the largest of the two hundred and fifty or more cities now having city-manager government. This form of city government lends itself particularly well to financial planning and to the execution of the budget plan. In a number of other large cities, such as, Philadelphia, Detroit, Boston, and Cincinnati, and scores of smaller cities, the mayor is more or less responsible for the preparation of the budget.

### *The Board Type*

Twenty-one states have budget plans that constitute budget-making authorities of the board type. In 13 of these states the board is composed entirely of administrative officers, and in the other eight of both administrative and legislative officers. The states having budget boards or commissions composed entirely of administrative officers are: Alabama, California, Connecticut, Florida, Kentucky, Louisiana, Michigan, Montana, Oregon, Tennessee, Texas, Washington, and West Virginia. The state budget commission of Alabama is composed of the governor, the attorney general, and the state auditor. It is also provided that three members and the speaker

of the house and two members and the president *pro tem* of the senate shall sit with the commission in the preparation of the budget. The budget board of California, which has been constituted recently (1921) head of the newly created department of finance, consists of the state board of control (three members appointed by the governor). This board acts as a whole in the final determination of the state budget, which is prepared by one member of the board acting as chief of the division of budgets and accounts in the department of finance. The Connecticut state board of finance, which prepares the budget, is composed of three members appointed by the governor for overlapping terms of six years, the tax commissioner (appointed by the governor), the treasurer, and the comptroller. The budget commission of Florida is composed of the governor, the comptroller, and the state treasurer (all elective). The budget appropriation commission of Kentucky consists of the governor, the state auditor, and the chairman of the state tax commission. Louisiana has a state board of affairs, which prepares the budget, composed of six members appointed by the governor and confirmed by the senate for overlapping terms of six years. The state administrative board of Michigan, which makes up the budget, is composed of the governor, the secretary of state, the state treasurer, the auditor general, the attorney general, the state highway commissioner, and the superintendent of public instruction (all elective). The Montana budget is prepared by the state board of examiners, consisting of the governor, the secretary of state, and the attorney general. The Oregon budget commission is the state board of control composed of the governor, the secretary of state, and the treasurer. The Tennessee state budget

commission is composed of the governor, the auditor (appointed by the governor), the comptroller, the treasurer, and the secretary of state (last three appointed by the legislature). Texas has a state board of control that prepares the budget, consisting of three members appointed by the governor with the senate's approval for overlapping terms of six years. The Washington budget is prepared by the state finance committee composed of the governor, the treasurer, and the auditor. The budget amendment of West Virginia provides that the board of public works, consisting of the governor, the secretary of state, the auditor, the treasurer, the attorney general, the superintendent of schools, and the commissioner of agriculture (all elected by the people), shall be the budget-making authority. Of these 13 states, nine provide that the governor shall be a member of the budget board or commission and he controls by appointment the budget boards or commissions of the four remaining states.

The eight states having budget boards or commissions consisting of both administrative and legislative officers are: Georgia, Maine, New York, North Carolina, North Dakota, South Dakota, Vermont, and Wisconsin. The budget and investigating committee of Georgia is composed of the governor, the attorney general, the superintendent of education, and the chairmen of the appropriation committees of the legislature. The Maine budget committee consists of the governor, the state auditor, the state treasurer (appointed by the legislature), and the chairmen of the committees on appropriations and financial affairs of the senate and of the house. The New York board of estimate and control, which makes tentative budget recommendations to the legislative budget committee, is composed of the governor, the comptroller,

and the chairmen of the senate finance and the assembly ways and means committees. The legislative budget committee, which is the final budget-making authority in New York, is made up of the members of the senate finance and the assembly ways and means committees, usually consisting of about 30 members equally divided between the two committees. The budget commission of North Carolina is composed of the governor, the four chairmen of the committees on appropriations and on finance of the house and of the senate, and a representative of the minority party of the legislature appointed by the governor. In North Dakota the state budget board consists of the governor, the auditor, the attorney general, and the chairmen of the senate and house appropriation committees of the preceding legislature. The South Dakota state budget board is composed of the governor-elect, the auditor, the chairman of the tax commission (appointed by the governor), the chairmen of the senate and house appropriation committees of the preceding legislature, and two members of the preceding legislature chosen by the governor from the two houses. The committee on budget of Vermont consists of the governor, the auditor, the treasurer, the commissioner of agriculture (appointed by the governor), the director of state institutions (appointed by the governor), a member appointed biennially by the governor, and the chairmen of the senate finance and the house ways and means committees and of the senate and the house appropriation committees. The state board of public affairs of Wisconsin, which is the budget-making authority, is composed of the governor, the secretary of state, the president *pro tem* of the senate, the speaker of the house, the chairmen of the senate and assembly finance committees, and

three members appointed by the governor with the senate's approval and subject to removal by the governor. In every case the governor is a member of the budget board and is chairman of the body.

The budget-making authorities in practically all commission-governed cities belong to the board type and consist of the city commissioners, usually five or seven, sitting as a board. Executive responsibility is divided among the commissioners. Buffalo, Newark, New Orleans, Portland, Memphis, and Dallas are some of the largest of the four hundred or more commission-governed cities.

There is another group of cities in which so-called boards of estimate, or estimate and apportionment, have been constituted the budget-making authority. These boards are usually composed of the heads of the more important departments of the city administration and some representatives of the city council. A few of the largest cities may be taken as examples of this group. New York City has a board of estimate and apportionment composed of the mayor, the comptroller, the president of the board of aldermen, and the five borough presidents, the first three members casting nine out of a total of 16 votes allowed the board. St. Louis has a board of estimate and apportionment composed of the mayor, the comptroller, and the president of the board of aldermen. Baltimore has a board of estimates consisting of the mayor, the city solicitor, the comptroller, the president of the second branch city council, and the president of the board of public improvements. The Milwaukee board of estimate and taxation is composed of the mayor, the president of the common council, the comptroller, the city attorney, the commissioner of public works, the city treasurer, and the

members of the finance committee of the common council. Other cities in this group are: Minneapolis, Rochester, Hartford, Syracuse, and a number of smaller cities mainly in New York State.

### *The Legislative Type*

The budget law of Arkansas requires the budget to be prepared by the legislature through a specially constituted committee. This committee consists of seven members of the house appointed by the speaker and five members of the senate appointed by the president. The state auditor is required to gather the estimates and to compile them for this committee. Recently (1921) the state comptroller did this work for the state auditor.

The two remaining states, namely Pennsylvania and Rhode Island, which have no legal provisions for budgetary procedure, may also be regarded as coming under this type, since it is the practice in these states for legislative committees to gather whatever budget information is sought and to make recommendations to the legislature for appropriations.

The budget-making authorities in a number of cities belong to this type. Some of the most notable examples are: Chicago, Los Angeles, San Francisco, Seattle, Providence, and Atlanta. In Chicago the council has almost complete control over the formulation of the budget. The estimates are gathered and compiled by the comptroller who submits them to the finance committee of the council. This committee, by the aid of a staff, investigates the estimates and makes recommendations to the council. In Los Angeles and San Francisco the budget is prepared by the finance committee of the city council. In Seattle the finance committee, consisting of five out of

nine members in the council, is the exclusive and final authority on all matters pertaining to the budget. Ratification of this committee's recommendations by the council is a mere formality, since the committee constitutes a majority of the council, and the appropriations in the form in which they are passed are not subject to veto by the mayor. In Providence and Atlanta, the budget is prepared by the finance committees of the council.

## II. BUDGET STAFF AGENCIES

### *Need for Staff Assistance in Budget Making*

From the cycle of operations that constitutes the financial procedure of the government must be drawn the information for budget planning. If this information is to be complete, it cannot all be gathered at one time, but must be gathered continuously throughout the whole procedure. A photograph of the going concern of government cannot tell all the facts about its operation. For example, the financial condition of a state government may be photographed, and this is often done by means of the balance sheet, but such a picture contains very little information of value in budget making. It is only when a series of such pictures are compared that they really begin to have value for budget-making purposes.

All the facts essential in budget making cannot be gathered in two or three months near the end of the year or the biennial period. The operation of the budget should be watched continuously during the entire period and the significant facts recorded for use in the preparation of the next budget. To do this, there should be some agency, or staff, whose duty it is to gather these facts. There should be a uniform system of accounting and reporting;

the reports of the spending agencies should be rendered currently; and the facts they contain should be compiled and analyzed in such manner as to provide a means of keeping the budget-making authority continuously in touch with the conduct of governmental affairs. When the estimates are submitted, the spending agencies should be investigated as to their organization, the methods they employ, the quality of service rendered by them, and their general needs in order to determine the propriety of their demands. Budget making is, therefore, not a simple, but a complex, operation; not an intermittent, but a continuous, procedure; not an undertaking for amateurs, but for trained specialists.

Any staff agency, when organized to assist effectively in budget making, should be a permanent body, should be composed of a trained personnel, and should have the authority to secure all the information needed in the preparation of the budget. It will be seen that only a few of the states and cities have agencies that measure up to all these requirements.

### *Kinds of Staff Agencies Assisting in Budget Making*

In a majority of the states adopting budgetary procedure no provisions have been made for staff assistance in the preparation of the budget. It seems that most states do not recognize the need for anything more than the fixing of responsibility for budget making upon some one agency of the government. This having been done, the agency is left to its own initiative in securing needed assistance and in devising forms and methods for gathering the data needed in preparing the budget. As a result, in many of the states the budget-making authority is without permanent, or even temporary, staff assistance

and must depend for the budget information upon other agencies of the government, many of which are independent of the agency making the budget.

Only a few of the cities have yet provided a special staff agency to assist the budget-making authority in the preparation of the budget. In all the larger cities, there is a real need for such an agency.

The agencies that have been provided in several states and cities to assist the budget-making authorities in the preparation of financial plans may be divided into four classes: (1) departments and offices of general administration under the chief executive; (2) budget bureaus and assistants to the chief executive; (3) staffs of budget boards and commissions; and (4) budget assistants to legislative committees.

### *Departments and Offices of General Administration*

In the reorganized and consolidated administrations of Illinois, Nebraska, and Ohio, departments of finance have been created that exercise powers of general administration over the other departments and agencies of government, especially over the other consolidated departments. These departments of finance each have the authority to correlate administrative work and to standardize financial practices and procedure. In each case they are under the control of the governor and assist him in the gathering of data and in the preparation of the budget. The supervisor of administration of Massachusetts also occupies a position in which he exercises certain powers of general administration. In the recent consolidation (1919) of the administration, he was placed under the governor and council. He prepares the budget, which is submitted by the governor to the legislature.

Recently (1921) the department of finance and purchase was created in Utah to assist the governor in budget making and to direct certain work of a general administrative character.

The department of finance of Illinois was created by the civil administrative code of 1917. It is not, strictly speaking, a spending agency, that is, it is not concerned directly with the spending of money in performing the functions of the state government. By virtue of this position it is given administrative supervision and financial control over the other departments that expend money. At the time the department of finance was created this supervision and control constituted practically a new field of work in state government. The department took over no work performed by previously existing agencies, except the functions of the governor's auditor and the compilation of the budget estimates by the legislative reference bureau. It is headed by the director of finance, who is appointed by the governor with the senate's approval for the same term as the governor, that is, four years. He receives an annual salary of \$7,000. The subordinate officers, as specified by the code, are the assistant director of finance, the administrative auditor, the superintendent of budget, and the superintendent of department reports, all of whom are appointed by the governor. The superintendent of budget is concerned mainly with the compiling and analyzing of the estimates and other data relative to the budget. Ten or twelve persons constitute the office force of the department.

Briefly, the functions of the department are to prescribe and require the installation of uniform methods of accounting and reporting; to examine the accuracy and legality of accounts and expenditures of other code de-

partments; to maintain controlling accounts with the other departments; to examine and approve, or disapprove, all vouchers, bills, and claims of the other departments; to formulate plans for better coördination of the work of the departments; to prescribe uniform rules governing purchasing methods and procedure; and to prepare the budget for the governor. Under the finance code of 1919, the powers of this department are extended to a considerable measure over all departments and agencies of the government.

Information necessary in the formulation of the budget is automatically and continuously brought together in the department of finance by the exercise of its powers of general administration. The director of finance, through his power of supervision over the expenditures of the state government, is in effect preparing the budget from the beginning of one fiscal period for the next fiscal period. In approving items of expenditure, he must constantly make investigations as to the need for such expenditures. In this way he becomes thoroughly familiar with the current requirements of each department. When the budget estimates are submitted to him, he has in his department an organized mass of information covering every phase of the expenditures made by the several departments. This information can be used immediately for comparative purposes in determining the propriety of the estimates. Such additional information as is needed can be gathered by staff investigations. If the information desired is of a special or technical character, he may secure specialists from the other departments to make the investigations. The director of finance may call any of the department heads, or any of their subordinate officers, before him when reviewing the estimates. In

revising the estimates, he has unlimited power over those of the code departments. If protest is made against the action of the director in revising the estimates, the matter is referred to the governor for final settlement. When the budget has been prepared, it becomes the governor's plan and he assumes full responsibility for initiating it in the legislature.

The department of finance of Nebraska was established by the civil administrative code of 1919. It is under the control of the secretary of finance, who is appointed by the governor with the approval of the senate for a term of two years. This department exercises powers that are similar in scope to those of the Illinois department of finance. It prescribes and requires the installation of uniform accounting methods and procedure; controls the expenditures of the other departments and supervises their financial reports; investigates duplication of work among the departments; prescribes rules governing the purchase of supplies; and acts as a staff agency to the governor in the preparation of the budget. The estimates are sent to the secretary of finance, who has power to review them. He may revise all estimates in his discretion, except those of the elective officers, the judiciary, the normal schools, and the state university. From the revised estimates the governor makes up his budget for presentation to the legislature.

The department of finance of Ohio was established by the administrative code of 1921. It is modeled after the Illinois department of finance. The director of finance, who heads the department, is appointed by the governor with the approval of the senate and serves at the pleasure of the governor. His salary is \$6,500 per year. There is a superintendent of budget in the department

appointed by the director at an annual salary of \$4,000. This department installs uniform accounting methods, audits the accounts of the administration, controls the purchase of all departmental supplies, supervises state taxation, investigates inefficiency in the departments, and prepares the budget for the governor. The budget estimates are collected by the department and the director is given authority to make such revisions in them as he deems wise before they are compiled and sent to the governor. From this information the governor prepares his budget for submission to the legislature.

The office of supervisor of administration in Massachusetts was created in 1916. It assumed the powers and duties of the commission on economy and efficiency and the state board of publication, which were abolished. The supervisor of administration is appointed by the governor with the consent of the council for a term of three years at an annual salary of \$5,000. He may be removed for cause by the governor with the approval of the council. The office acts as a staff agency to the governor in making investigations. It exercises general administrative powers over state employment, state printing, and state purchasing. Standardization, rating, and promotion in civil service are largely under the control of this office. The supervisor of administration is authorized to collect the estimates, review them, and prepare the budget for the governor, who submits it to the legislature.

In 1921 the department of finance and purchase was created in Utah. Its head is the director of finance and purchase, appointed by the governor and serving at his pleasure. The director's salary is \$5,000 per year. This department controls all purchasing and contracting for the state departments and agencies; it keeps accounts

and checks the expenditures of all state agencies; it makes investigations relative to waste and inefficiency in the administration; and it gathers the estimates, makes investigations and prepares the budget for the governor.

A Missouri law was enacted in 1921 that created a department of budget having functions with reference to purchasing and budget making similar to those of the Utah department of finance and purchase. Since this law was passed referendum petitions of sufficient number have been filed with the secretary of state to prevent it from becoming operative until voted on by the people at the general election of 1922.

In Cleveland and Toledo the mayor is assisted in the preparation of the budget by the department of finance. In each case the director of finance is an appointee of the mayor and supervises the principal financial operations of the city government. He is, therefore, the chief financial adviser of the mayor, and his office contains most of the information necessary for budget-making purposes. Likewise, in Dayton the city manager is assisted in making up the budget by the department of finance, which has powers similar to those above.

### *Budget Bureaus and Assistants to the Executive*

The outstanding example of this class of budget staff agencies is the Bureau of the Budget of the national Government. While this Bureau is nominally placed in the Treasury Department, it is in practice directly under the control of the President's office. The head of the Bureau, called the Director, is appointed by the President without confirmation by the Senate and holds office at the pleasure of the President. The salary of the Director is \$10,000 per year. There is an assistant director appointed

by the President at a salary of \$7,500 per year and four other assistants appointed by the Director at salaries not to exceed \$6,000 per year. The remainder of the office staff is recruited subject to civil service regulations and no one is to receive more than \$5,000 a year. Each department and agency of the Government is required to designate one of its officials as budget officer who is responsible for the preparation of the estimates of that particular department or agency. The Bureau of the Budget investigates the work of the departments and agencies of the Government, collects and tabulates the estimates, and, when the President has made his recommendations, prepares the budget for submission to Congress.

The governor of Idaho has a budget bureau in his office, and the governors of Colorado and New Jersey have permanent budget assistants. In the other states, where the governor is responsible for the formulation of the budget, temporary help is secured to assist him, and in most cases no permanent records are kept especially for budget-making purposes.

Recently (1921) the bureau of budget and taxation was established in the office of the governor of Idaho. Formerly this bureau was part of the organization of the department of finance, as established under the administration consolidation act of 1919. The accounting supervision and control over the expenditures of the state are now exercised mainly by the auditor's office. Besides assisting the governor in the preparation of the budget, the bureau of budget and taxation investigates inefficiency and duplication of work in the departments and has general supervision over state tax matters in conjunction with the state board of equalization. The head of the bu-

reau is appointed by the governor and receives \$3,600 per year.

The Colorado budget law established the office of the budget and efficiency commissioner. The commissioner is appointed by the governor for a term of office coterminous with that of the governor and he receives a salary of \$3,600 per year. He must be qualified as an accountant and must devote his entire time to the duties of his office. He is provided with such technical and clerical assistance as, in the opinion of the governor, is necessary to carry on his work. He is given access to the accounts and records of all agencies receiving money from the state, and may require these agencies to furnish such financial statements as the governor may designate. It is his duty to assist the governor in the preparation of the budget and appropriation bills. Either house of the legislature may require the commissioner to appear before it and make explanations concerning the budget.

The New Jersey budget law provides that the governor may name not more than two assistants to help him in the preparation of the budget. Under this provision, the governor named one permanent and one temporary assistant. The temporary assistant is an accountant and works only during the three or four months of each year when the budget is being prepared. The permanent assistant has an office in the state house and necessary clerical assistance. He prepares the estimate forms and collects the budget data both by correspondence and by visits to the departments and institutions. Each month he receives a copy of all payrolls as filed with the comptroller and the civil service commission. These are the only records that are filed currently in his office.

The budget laws of Arizona, Oklahoma, South Caro-

lina, Virginia, and Wyoming provide that the governor shall employ competent assistants to help him in gathering budget data, in making a general survey of the state's financial condition, and in preparing the budget. Virginia was the first one of these states (1920) to carry its budget law into operation. Here the direction of the work was placed under the secretary to the governor, who was assisted by a statistician and other members of the executive office force. The governor appointed several special survey boards, composed of members belonging to certain state departments and institutions, and also secured the assistance of two research agencies from without the state to make certain preliminary studies.

The budget laws of almost one-half of the states, notably the budget amendment of Maryland and those laws that have been copied from it, make no provisions for assistance to the governor in the preparation of the budget. He must rely upon his office force and whatever temporary help he can secure. No permanent records of budget data are kept in the executive office; all information for the preparation of the budget is gathered by means of estimates, hearings, and investigations during one or two months of each year, or each biennium, as the case may be, and the subject of budget making is dismissed until the next period of preparation arrives.

The mayor of Boston is assisted in the preparation of the budget by the budget department, headed by the budget commissioner, whom he appoints at a salary of \$5,000 per year. The budget commissioner prepares the estimate forms and collects all the information used in making up the budget. In Detroit the city comptroller, an appointee of the mayor, collects and tabulates the estimates and submits them to the mayor for his review and

revision. After the mayor has made his revisions, the estimates are returned to the comptroller, who puts them in final budget form for transmission by the mayor to the council.

### *Staffs of Budget Boards and Commissions*

Several of the states having budget boards or commissions have provided for staff assistance to these boards or commissions in the gathering of budget data and in the preparation of the budget. The most notable example is Wisconsin. The Wisconsin state board of public affairs has a secretary who is usually an accountant and receives an annual salary of \$4,500. A special examiner and four permanent accountants are employed by the board in addition to the clerical force of the office. The board has certain powers of general administration vested in it, namely, the power to supervise expenditures, the power to devise and require the installation of uniform accounting methods and procedure, and the power to formulate plans for coördinating the work of the administration. As a result of the exercise of these powers, budget data are being continuously brought together by the staff, and the board is placed in a position of authority when making budget recommendation to the legislature. The budget boards of California, Louisiana, and Texas also exercise certain powers of general administration that ought to be of great advantage in budget making.

The New York City board of estimate and apportionment has a budget staff working continuously under the direction of its secretary. This staff consists of examiners, statisticians, accountants, and engineers. The departmental estimates are transmitted to the secretary of

the board and he assigns examiners to investigate and report on the items of the various requests. The estimates are then assembled and, with the reports of the examiners, are turned over to the board for its action. The board may ask for additional information and may assign members of the staff to make special investigations. Prior to 1918 the investigation of the budget estimates was conducted by the bureau of personal service and the bureau of contract supervision, but these bureaus were abolished and their staffs placed directly under the secretary of the board of estimate and apportionment so as to place the members of the board in direct contact with the investigational sources of budget information.

### *Budget Assistants to Legislative Committees*

The chairmen of the finance and of the ways and means committees of the New York legislature each appoint a clerk, an accountant, and a stenographer to assist in the preparation of the budget. Each clerk receives an annual salary of \$4,000, together with traveling and other necessary expenses. These clerks work throughout the year. They are required to compile information and financial data relating to the spending agencies; to prepare tables of appropriations previously made by the legislature; to procure statistics relating to revenues; to investigate and report on requests for appropriations; to aid the committee and the legislature in making investigations pertaining to expenditures; and to assist in the preparation of the budget. In order to perform these duties they are given the right of access to the offices of all spending agencies for the purpose of obtaining information as to their operation and their financial needs.

The finance committee of the Chicago city council has

a staff that compiles budget data for the use of the committee. The departmental estimates and certain information from the city comptroller's office are submitted to the finance committee. Then the committee turns this information over to its staff, which scrutinizes the estimates by means of investigations and in the light of data gathered during the year. The staff assists the committee in drafting its budget report to the council and in framing the appropriation ordinances.

## CHAPTER III

### CHARACTER OF THE INFORMATION REQUIRED IN BUDGET MAKING

The main purpose of the budget system is to establish control over the expenditures of government by means of comprehensive planning based upon financial information that has been correctly determined and systematically presented. The importance of having sound financial information in budget making cannot be over emphasized. The budget plan will be defective in proportion as the information upon which it is based is incomplete or inaccurate. It is, therefore, very desirable (1) to consider the character of the information needed in budget making, and (2) to determine how this information should be classified and arranged for use.<sup>1</sup>

#### *General Character of the Information*

The general character of the information required in preparing the budget is comprehended in the following questions:

1. What is the work to be done or to be undertaken?
2. What department, institution, or other agency of government is to be immediately responsible for doing the work?
3. What is to be the cost of doing the work?
4. How is the cost of the work to be met?

These are the questions that should be decided before expenditures are authorized. In other words, these are

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<sup>1</sup> Classification is discussed in the next chapter.

the questions upon which the budget should furnish full and complete information. The different factors and problems involved in each question will now be considered.

## I. THE WORK TO BE DONE OR UNDERTAKEN

Just what work the government should undertake and the extent to which it should carry this work when once undertaken is largely a matter of policy and lies outside the technique of budget making covered by this book. There are, however, two questions that deserve attention in this connection.

### *Using the Experience of Other States and Cities in Deciding upon New Activities*

When it is felt that a certain need should be supplied by the government, valuable suggestions as to just how to proceed with the work may be gathered oftentimes from the policy and experience of other states and cities relating to the same subject. This will sometimes save the expense of trying out a policy that has already failed elsewhere under similar conditions. It will also enable a state or city to profit by the experience of other states or cities. Hence, it seems very desirable, especially in the case of a state, for the budget-making authority and the legislature to establish some means of keeping in close touch with the development of the plans and policies of other states as related to the general problems of government. A number of state legislatures have already established reference departments or bureaus that collect such information for their members and committees. Where such agencies exist, they might be made to serve

the budget-making authority as well as the legislature. Otherwise, the budget-making authority should gather such facts through its staff agency.

*Relation of Revenues and Taxation to Governmental Needs*

In providing for the activities of the government, budget-making authorities and legislative bodies should always take into consideration the present and prospective resources of the government. That is, the establishment of new activities and the extension of old activities should never be considered apart from the question of prospective revenues available for such purposes and the problems of taxation connected with the raising of these revenues.

## II. THE AGENCY OF GOVERNMENT RESPONSIBLE FOR THE WORK

The work of the government must be accomplished through the departments, institutions, and other agencies. In other words, responsibility for doing the various kinds of governmental work must be fixed upon some organization unit. When new activities are to be undertaken and the character of the work has been determined, then comes the question of organizing or designating the agency or agencies best suited to do the work. This is not always an easy task. In most cases it involves a study of the existing governmental organization to see if there is in it already an agency suited to the performance of the work. Usually such a study has been omitted, the result being that practically every time a new activity has been undertaken a new agency has been set up to

do the work. In fact, state legislatures seem to prefer this method, since it does not disturb the *status quo*, and, at the same time, it increases the amount of political patronage. This has been one of the principal causes of the present chaotic condition especially of state administrative organization. The recent movement for the reorganization of state administration into a few departments along functional lines has developed mainly because of this condition (see Chapter XII).

*Determining the Fitness and Efficiency of a Governmental Agency to do Work*

The planning and establishing of efficient organization units to do the work of government is just as important as is the conceiving and planning of the work to be done. In other words, policy should not be considered as divorced from administration. It makes no difference how sound or how well thought out a policy may be, it will amount to little or nothing unless it is properly executed. This brings up the questions of the fitness and of the efficiency of an administrative agency or organization unit. In creating an agency or in assigning work to an existing agency the fitness of the agency to do the work that is planned should first receive consideration. Such problems are here involved as whether or not the work proposed demands an agency headed by a single person or one headed by a board. In matters of organization and reorganization the experience of other states and cities will be found helpful (see Chapter XII). When it comes to determining the efficiency of an agency with reference to the work it is performing, this can be decided largely upon the achievements of the agency measured in terms of cost. Here again, proper records are

an invaluable aid to the budget-making authority and the legislature. Such records should go beyond what is merely necessary for financial control and should deal with the unit cost of doing different phases of the work. Cost records, if properly kept, are a means of revealing poor administration (see Chapter XI).

In carrying on the work of government the methods and procedure of administration are very important elements in the cost of the work—elements that should not be overlooked or disregarded in the preparation of the budget. If there are no methods for determining the qualifications of persons, for fixing salary standards, and for rating efficiency in public employment, then the cost of doing work must necessarily be greatly increased. If supplies, materials, and equipment are independently purchased by the various using agencies without any centralized control and without regard for standard specifications, then the cost of goods needed in the performance of work is almost certain to be very much greater (see Chapter XI).

### III. THE COST OF THE WORK

After the general character of the work has been decided upon and the agency or agencies to be responsible for doing the work have been selected or established, the next step is the determination of the cost of the work. To begin with, the work to be done must be translated into concrete things before the cost can be accurately estimated. Such things fall into two main groups, the one is services and the other is objects. In order to perform any work there must be labor, both mental and physical, of persons, and there must be supplies, materials, and equipment. These facilities for doing work consist of

concrete things that may be purchased at definite prices. To estimate accurately the cost of services, supplies, materials, and equipment, they should each be reduced to the unit basis, that is, to individual stenographers, to tons of coal, to bags of cement, to single typewriters, and so on. The cost of each unit can then be estimated by the budget-making authority in the light of past and present prices and the trend of prices for the future. It is then only a matter of multiplying the quantities estimated to be required by the cost of their various units and totaling the results to determine the total cost of the work.

#### *Need for Standard Specifications*

It is not an easy task, however, to determine unit costs unless there has been some attempt to classify, standardize, and grade the personal services, and also to provide standard specifications for the purchase of supplies, materials, and equipment. Otherwise, when estimates of the cost of services and goods are made by the various organization units, the unit cost will vary according to the standards used by each particular agency; consequently it will be very difficult to make comparisons between the estimates of the different organization units and also to determine whether or not an estimate is reasonable (see Chapter XI).

#### IV. HOW THE COST IS TO BE MET

When the cost of the work has been estimated, then comes the question of how the cost is to be met; in other words, how the proposed expenditures are to be financed. Two means of financing are commonly used, one is to meet the expenditures out of current revenues, and the

other is to meet them out of borrowed money. If the first alternative is chosen, then an examination must be made of the condition of the fund or funds of the treasury out of which the cost of the work in question may be met. Or, perhaps, a new fund is to be set up. Let us assume, however, that the cost of the work is to be met out of the "general fund," a fund commonly found in the several states and cities. First, the condition of that fund should be determined as of the beginning of the fiscal period during which the work is to be done. The result will be either a balance or a deficit. Then the revenues accruing to the fund under the existing laws during the fiscal period should be estimated, taking into account the balance or deficit at the beginning of the period. This will give the total estimated receipts in the fund available to meet the cost of the work in question. If the total estimated receipts of the fund do not equal the total expenditures to be made from it, then obviously either the proposed expenditures must be reduced or the estimated revenues must be increased by additional or new taxation. Should the budget-making authority decide not to reduce the proposed expenditures in order to make them commensurate with the anticipated revenues, then it should be the duty of that authority to recommend new sources of revenue that will accrue to the fund in question. It is important that such recommendations should be made, since the burden of taxation imposed in raising revenues to meet proposed expenditures is a very significant factor in finally determining the urgency of such expenditures.

### *Questions to be Decided in Issuing Bonds*

If the second means of financing is used, namely, of meeting the expenditures by issuing bonds, then consid-

eration should be given to the bonding policy. Briefly, this involves three main questions: the purpose of the bonds, the term of the bonds, and the nature of the bonds.

Since bonds may be issued for all kinds of expenditures, it is necessary first to determine the kinds for which bonds may be most advantageously issued. This can be determined most easily by the character of the expenditures, whether such expenditures are for current expenses and fixed charges, or for what is commonly called capital outlays, that is, the acquisition of property of a permanent nature. Current expenses cover the expenditures made in running the government from day to day, while capital outlays include those expenditures for lands, buildings, and other purposes that increase the capital assets of the government. It is generally considered bad policy to issue bonds for current expenses or to fund deficiencies in current income, since this is merely deferring and loading upon a future period burdens that should be currently borne. If this is done, the future period will then have its own current expenses and in addition those of a past period, so there will be a double load upon it. Bonds are most commonly issued for capital outlays and for emergency purposes.

Next comes the question of the term of the bonds. It is not uncommon to find states and cities issuing bonds for a term of 50 years. However, in financing construction work it is regarded poor policy to issue bonds for a longer term than the probable life of the improvement. That is, road surfacing, when the roads last from 10 to 15 years, should not be financed by 50-year bonds. If such be the case, the taxpayers will have at least three bond issues loaded upon them for surfacing and resurfacing the roads before the first issue is paid.

Finally, there is the question of the nature of the bonds. Two kinds of bonds, designated as "serial" and as "sinking fund," are commonly used by the states and municipalities. Serial bonds are met currently from the general treasury and are usually paid in equal annual installments, the first installment falling due within a year or two after the date of issue. Sinking-fund bonds are redeemed at the end of their term from a fund into which has been set aside periodically certain amounts that taken together equal the principal of the bonds at the date of maturity. It will be seen that paying serial bonds is a much simpler procedure than amortizing sinking-fund bonds, and, besides, the sinking fund bonds do not sell to any better advantage than the other kind; in fact, bankers and bond brokers have recently come to prefer the serial to the sinking-fund bonds.

In recommending the issuance of bonds to meet expenditures the budget-making authority should not only give close attention to the above questions, but it should also take into consideration the existing debt obligations and the tax burdens such obligations place upon future periods.

## CHAPTER IV

### CLASSIFICATION OF THE BUDGET INFORMATION

#### *Need for Classification*

To know how to classify budget information properly is equally as important as to know the character of the information required, since the value of financial and statistical information depends very largely upon how it is classified and arranged for use. The proper classification of budget information insures uniformity in presentation; makes for accuracy in planning; facilitates gathering, compiling, and reviewing; enables comparisons to be made with past years as well as between departments and institutions of similar character; and makes the budget easier to understand when it is set up. If the budget classification is properly tied into the accounting system, it makes for better control and more efficient reporting.

#### I. EXPENDITURE CLASSIFICATIONS

Expenditures are classified: (1) by functions, (2) by organization units, (3) by objects, (4) by character, and (5) by funds. The Virginia budget law and those of several states copied from the Virginia law require the expenditures for each agency to be classified by functions, character, and objects. The budget laws of Kentucky, Minnesota, New Jersey, and Vermont prescribe general titles for what may be designated as object classifica-

tions of expenditures. These titles are in each instance very indefinite in scope and meaning, and besides confuse both the object and the character basis of classification. Most of the state budget laws, however, merely authorize the budget-making authority to prescribe such classifications as may seem necessary. This seems preferable to outlining the classifications in the laws, since it may be advisable to change or modify them from time to time. A discussion of the several classifications of expenditures follows.

### *Classification by Functions*

The work of state governments has been divided by their constitutions into three branches, namely, legislative, judicial, and executive. These were formerly conceived as the three "powers" of government to be performed by separate and distinct agencies. In practice, however, one agency sometimes performs work belonging to all three of these branches; legislative and judicial powers are often delegated to executive or administrative agencies. The grouping of governmental agencies upon this basis is therefore, from the standpoint of strict functional lines, largely an arbitrary one; still under our constitutional system such grouping seems advisable for proper financial consideration, in fact, it is made obligatory for budget purposes in some of the states. For example, the Maryland budget amendment provides that the estimates of the legislative and of the judicial branches shall be included by the governor in the budget without revision. This necessitates a segregation of the agencies performing the work of these two branches from those of the executive branch.

For purposes of financial information a few states have

provided a general classification of all their activities. New York's so-called standard classification of agencies of government is perhaps one of the best examples. It recognizes the legislative, judicial, and executive branches, and divides the executive branch into the following subdivisions: administrative, regulative, educational, agricultural, defensive, penal, curative, charitable, protective, constructive, and general. New Jersey, Ohio, and Virginia have adopted similar classifications for purposes of budget information. These classifications, however, only approximate functional lines in the case of some agencies, since an agency may be performing work belonging to two major functions but must be grouped under one or the other. Nevertheless, such an arrangement enables one to ascertain, in a general way, how much is expended for the prevention of crime, for the protection of health, for the development of agriculture, for the regulation of commerce and industry, for the promotion of education, and so on. Such a classification, however, of the activities of government along functional lines has its chief value in working out plans for the reorganization and integration of state administration.

Practically all of the studies relating to administrative reorganization of state governments have assumed in the beginning that the work of government can be grouped along functional lines. Proceeding upon this assumption, the duties of existing agencies have been analyzed and a small number of groups, having clearly defined spheres, have been set up. Then each group has been designated a department under an appropriate title. Thus, in Illinois, under the reorganization of 1917, nine departments were established: namely, finance, agriculture, labor, mines and minerals, public works and build-

ings, public welfare, public health, trade and commerce, and registration and education. The plans of reorganization adopted by Idaho and Nebraska in 1919 followed the general principles of the Illinois plan. The Idaho plan created nine departments but saw fit to emphasize different functions. For example, a department of reclamation was created, reclamation being an important function in Idaho but not in Illinois. The Massachusetts reorganization plan of 1919 provided for 20 departments, thus integrating the administrative work to a less degree than in Illinois, but at the same time including the constitutional officers (see Chapter XII). In these states the structural organization of the administration coincides very largely with the general classification by functions. The expenditures for the various functions are represented, therefore, by the expenditures of the organization units, and it becomes practically unnecessary to have a classification of the general administrative functions of government, such as that used in New York at the present time.

The United States Bureau of the Census has devised a so-called functional classification of expenditures that it uses in its financial statistics of states and cities. For states this classification is as follows: (1) general government; (2) protection to persons and property; (3) development and conservation of natural resources; (4) conservation of health and sanitation; (5) highways; (6) charities, hospitals, and corrections; (7) education; (8) recreation; and (9) general. When this classification is applied to cities, the third group is omitted and the fourth is broken into two groups, one of which is "conservation of health" and the other "sanitation, or promotion of cleanliness"; also, a tenth group, called "miscellaneous,"

is added. Expenditures for judicial and legislative purposes are not recognized as of sufficient importance to be shown apart from general administrative expenditures. "Highways" and "hospitals" are concrete objects and not functions of government, as it would appear from this classification. Then the classes "general" and "miscellaneous" are not functional groups; they do not properly belong to any kind of classification. To use such class titles is to admit on the face of it the unsound basis of one's classification. This classification, therefore, is little more than a convenient arrangement for the grouping of state and city expenditures under a few headings. It cannot be used advantageously as a budget classification. No state, except Idaho, and only a few cities have attempted to use it in connection with budget making, and then only with considerable modification.

Functional classification, when applied to the work of a department or administrative agency, is useful as a means of determining the internal organization. It was upon this basis that the Illinois departments, organized under the civil administrative code, were subdivided into bureaus or divisions. For example, the Illinois department of public health has eleven divisions: executive, communicable diseases, diagnostic laboratories, tuberculosis, sanitation, hotel and lodging-house inspection, vital statistics, public-health instruction, child hygiene and public-health nursing, surveys and rural hygiene, and social hygiene. Here again the work of the divisions practically coincides with the principal functions of the department, and the expenditures of the divisions represent the expenditures for the various functions of the department.

Under the provisions of the Virginia and South Caro-

lina budget laws the first budgets of these states (1920) set up a functional classification of the activities of each administrative agency. This classification, of course, differs for each agency; it cannot be standardized. In most instances, it has no definite relation to the internal organization of the agency. It is largely an arbitrary division of the activities of the agency and is not based upon the structural organization of the work. While it undoubtedly has value from the standpoint of the preparation of an administrative work plan and the keeping of cost records, it assumes for purposes of accounting control over expenditures an internal organization that does not exist. The question of appropriating to functional divisions that do not represent actual organization units or entities will be taken up later (Chapter IX).

Functional classification, as applied to the activities of state and city governments, should be used as a basis for determining the organization of governmental work into a few major units or departments and of subdividing these into bureaus and divisions. A functional classification of expenditures may show poor administration, but it does not fix responsibility for such administration unless the functional group coincides with the organizational group or unit.

In states and cities having properly organized and integrated administrative structures, the organization unit has a definite relation to the functional classification, which may be shown as follows:

I.—Function (general):	<i>e.g.</i> , protection of public health
A.—Organization unit:	department of public health
1.—Function (intra-departmental):	sanitation
a.—Organization unit:	bureau of sanitation

*Classification by Organization Units*

Any department, bureau, division, institution, or agency of the state or the city government, the work of which is organized under a responsible head may be regarded as an organization unit. The essential characteristic of an organization unit is fixed and definite responsibility for work done. The size of the activity is not of prime importance; there is no limit as to how far subdivision may be carried so long as the final working unit is not broken up. The work of the state or the city, when classified by organization units, will show the departments, bureaus, divisions, and subdivisions of government in their proper relation to each other and to the whole governmental organization.

Classification by organization units, that is, classification so as to show definite lines of responsibility, is of basic importance in financial control. For this reason it should be regarded as the primary classification for purposes of budget making. Then personal responsibility is emphasized, and it is possible to present in the budget a complete outline of the governmental organization. Such a classification not only enables control to be exercised over expenditures, but it enables comparisons of cost to be made between functionally related units of government for one or more years.

*Classification by Objects*

Thus far no classification of expenditures upon a strictly object basis has been devised. While practically every state and city uses the so-called object classification of expenditures, there is a wide divergence of opinion as to what constitutes such a classification. There

is a total lack of agreement among accountants and budget specialists upon what should constitute even the major titles of such a classification. Oftentimes the titles used do not show the objects of expenditure, but are based upon the use or purpose of the object rather than the object itself, or upon the function to which the object is to be applied, or upon the character of the expenditure. New Jersey, for example, provides that the expenditure estimates be grouped as follows: (1) maintenance—food, clothing, fuel and power, supplies, incidentals; (2) salaries; (3) repairs and replacements; (4) miscellaneous, including equipment, insurance, fixed charges, and so forth; and (5) new buildings. This classification is not only incomplete and very indefinite in some of its titles, but confuses both the character and objects of expenditure. But even if a perfectly consistent object classification of expenditures were devised, perhaps, for practical application, it would not be at all desirable.

What is needed for budget-making purposes is a classification of the services and commodities to be purchased and of the obligations to be met by the government. For the sake of a better term this may be called an object classification, although it would not be constituted entirely upon an object basis. When such a classification, designating the services, commodities, and obligations for which expenditures are to be made, is coupled with the organization unit classification in making appropriations, it is then possible to exercise proper control over expenditures. By using these two classifications, responsibility for spending is fixed in the head of the organization unit and the essential elements in making contracts and purchases, that is, the things to be bought are known (see Chapter IX).

Among the object classifications now used by the states, those of Illinois, Ohio, and New York deserve special attention because of the extent to which they have been worked out. The Illinois classification was devised by the department of finance shortly after its creation in 1917. In order to extend the application of the classification to those departments and agencies outside the code departments, it was made statutory (Finance code, Laws of 1919). It is frankly based upon both the objects and purposes for which expenditures are made. It is used in making up the expenditure estimates, in standardizing the items of appropriation measures, and in controlling all departmental expenditures through the department of finance. It provides for the classification of items under eleven general titles as follows: (1) salaries and wages; (2) office expenses, covering the running expenses of an office and including consumable supplies; (3) travel, including charges and expenses incident to traveling; (4) operation, covering expenditures for the conduct, maintenance, and upkeep of plants, institutions, and agencies; (5) working capital, as applied to institutional manufacturing and selling of articles; (6) repairs, both of buildings and of equipment; (7) equipment, covering expenditures for all personal property of a non-consumable nature; (8) permanent improvements, including buildings and other structures, but not including equipment; (9) land; (10) contingencies, covering expenditures not included above or for deficiencies; and (11) reserve, including expenditures for public purposes that are unforeseen by the legislature. The first nine of the above divisions are used as titles of the standard accounts kept by the department of finance. The appropriations made under the last two divisions are usually allocated to some

of the preceding divisions before any expenditures are made from them.

Under the administrative reorganization plan of Illinois there is a special advantage to enacting this classification into law, since the department of finance is thereby enabled to exercise a certain amount of control over the expenditures of departments and agencies not under the code administration. Besides, it makes for uniformity in the presentation of budget data to the department of finance. As a general proposition, however, it does not seem wise to attempt to write even the outline of an expenditure classification into law. Already the experience of states in budget making indicates pretty clearly that practical application will point to needed changes in classification from time to time. If the classification is rigidly fixed by law, then these changes cannot be made without considerable delay necessitating the approval of the legislature.

The Ohio classification has been adopted by both Virginia and South Carolina, with some slight rearrangements and the addition of one or two new titles, such as pensions and contingencies. It provides for eight groups, called standard account titles, as follows: (1) personal service, divided into salaries, wages, and unclassified; (2) supplies, including food, forage, fuel, office, medical, laundry, refrigerating, educational, agricultural, motor vehicles, and general plant; (3) materials—highway, building, and general plant; (4) equipment, including office, household, medical, livestock, motorless vehicles, motor vehicles, clothing, educational, and general plant; (5) contract and open-order service, including repairs, motor-vehicle repairs, water, light, heat, and power, janitorial, transportation, communication, contingencies, and

general plant; (6) fixed charges and contributions, covering rent, insurance, and contributions; (7) additions and betterments, including lands, buildings, major and initial equipment, and non-structural improvements; and (8) rotary funds, or working capital. Some titles, it will be seen, indicate the nature of the service, for example contract and open-order service, or the character of the expenditure, for example fixed charges and contributions, or the use of the money to be appropriated, for example rotary funds. In other words, the classification does not adhere strictly to objects. It requires extended definitions to determine the limits of each title, and also a code of the commodities purchased so as to enable the governmental agencies in making out their estimates to place the objects under the proper title. After making his accounts conform to the classification and keeping them on that basis for five or six years, the state auditor claims that the classification is unsatisfactory and should be abandoned.<sup>1</sup>

Under the law the New York classification is prescribed by the comptroller's office. The classification used at present by departments differs somewhat from that used by institutions. The classification for departments is as follows: (1) personal service; (2) food; (3) fuel, light, power, and water; (4) printing; (5) advertising; (6) equipment and supplies; (7) materials; (8) hired horses and vehicles; (9) traveling expenses; (10) communication; (11) fixed changes and contributions; (12) general plant service; (13) repairs and alterations to buildings, repairs and replacements of mechanical equipment; (14) rent; (15) construction or permanent betterments; and (16) acquisition of real estate. For

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<sup>1</sup> Auditor's Report, Ohio, 1919, p. 7.

institutions the classification is as follows: (1) personal service; (2) food; (3) fuel, light, power, and water; (4) clothing; (5) furniture, furnishings, and household supplies; (6) medical and surgical care, supplies, and equipment; (7) farm and garden; (8) roads, grounds, and walks; (9) general administration; (10) office expenses; (11) traveling expenses; (12) fixed charges and contributions; (13) repairs and alterations to buildings, repairs and replacements of mechanical equipment; (14) construction and permanent betterments; and (15) acquisition of real estate. These general titles for institutional estimates are subdivided as far as detail is desired. For example, food is divided into breadstuffs and cereals; coffee, tea, cocoa, etc.; dairy products; fish, fresh; fish, salt and canned; meats, fresh; meats, salt, smoked, and canned; poultry; fruits, canned and jellies; fruits, dried; fruits, fresh; spices, extracts, etc.; sugar, syrup, etc.; vegetables, canned; vegetables, dried; vegetables, fresh; and yeast, baking powder, etc. It will be noted that this classification is not strictly an object classification of expenditures, but is based upon character, use, and purpose, as well as object.

A recent Idaho law<sup>2</sup> requires the state auditor to use an object classification in keeping accounts and reporting expenditures that is adapted to the requirements of the bureau of budget for budget-making purposes. The classification prescribed in this law is as follows: (1) personal services; (2) services other than personal; (3) materials; (4) supplies; (5) equipment; (6) structures and non-structural improvements; (7) land; (8) other capital outlays; (9) fixed charges and contributions; (10) pensions; (11) losses and contingencies; and (12) pay-

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<sup>2</sup> Chapter 103, Laws, 1921.

ments as agent. This is certainly a mixed classification. Just what the class "services other than personal" comprehends is not clear. It may include *all* expenditures not included in the first class—personal services; in fact, this is the way it is used in the city of Minneapolis. Here, however, it includes what is commonly called "contractual services," or transportation, communication, printing, etc. Class eight is not clear, but is supposed to include, among other things, the payment of debt. "Fixed charges" is a character designation. The last class, while perhaps necessary for accounting purposes, is unnecessary for budget-making purposes.

Among the cities the classifications used by Dayton and St. Paul are worthy of note. The Dayton classification is used rather widely over the country, especially by other city-manager cities. It is as follows: (1) personal service; (2) contractual services; (3) sundry charges; (4) supplies; (5) materials; (6) equipment; and (7) lands, buildings, and structures. "Sundry charges" is made the catch-all class; it includes contributions, debt service, imprest cash, pensions, refunds, etc. The St. Paul classification goes considerably more into detail and adheres fairly well to an object basis. It is as follows: (1) salaries and wages; (2) contractual services; (3) materials; (4) supplies; (5) equipment; (6) contributions; (7) pensions and compensations; (8) taxes and special assessments; (9) judgments and compromise; (10) refunds and repayments; (11) land; (12) buildings, structures and improvements; (13) payments to other funds; (14) interest; (15) redemption of debt. The eighth class includes expenditures for taxes on city property not exempt and special assessments on exempt property. Class 13 is mainly for bookkeeping purposes.

It will be seen from the above examples that states and cities are using for budget purposes not purely object classifications but classifications that indicate the character of the service, or the purpose to which the object is to be applied, as well as the object itself. For stores records the object classification may be regarded as sufficient, but for appropriation purposes something more than a strict object classification is needed—services of various kinds must be purchased as well as goods, and obligations must be met. These must be classified just the same as the things that are clearly commodities or goods. So, for budget-making purposes, there should be a classification that is expressed in terms of services and commodities to be purchased and of obligations to be met, that is, to state it another way, in terms of purchases and payments. The titles and sub-titles of such a classification are as follows:

1. Personal services:
  - 1a. Salaries and wages
    - (a) Regular
    - (b) Temporary
  - 1b. Other compensations
2. Supplies and materials:
  - 2a. Food
  - 2b. Forage
  - 2c. Fuel (coal, gas, and oil)
  - 2d. Clothing (personal and household linens)
  - 2e. Office supplies (does not include printing, binding, etc.)
  - 2f. Cleaning and toilet supplies
  - 2g. Refrigerating supplies
  - 2h. Medical and laboratory supplies
  - 2i. School supplies
  - 2j. Agricultural supplies
  - 2k. Other supplies and materials
3. Communication and transportation (services):
  - 3a. Postage
  - 3b. Telephone and telegraph
  - 3c. Freight and express

- 3d. Traveling expenses
  - (a) Transportation
  - (b) Hotel
- 3e. Hired horses and vehicles
- 4. Subsistence, care, and support (services):
  - 4a. Subsistence and support of persons
  - 4b. Subsistence and care of animals
  - 4c. Storage of vehicles
- 5. Printing, binding, and advertising (services):
  - 5a. Printing
    - (a) Departmental reports and bulletins
  - 5b. Engraving
  - 5c. Lithographing
  - 5d. Binding
  - 5e. Advertising
  - 5f. Publication of notices
- 6. Heat, light, power, and water (services):
  - 6a. Furnishing heat
  - 6b. Furnishing light
  - 6c. Furnishing power
    - (a) Electricity
  - 6d. Furnishing water
- 7. Repairs and replacements:
  - 7a. Repairs to buildings and other structures
  - 7b. Repairs and replacements of equipment
- 8. Rents:
  - 8a. Of buildings and offices
  - 8b. Of equipment
- 9. Insurance:
  - 9a. On buildings
  - 9b. On stores
- 10. Refunds, awards, and indemnities
- 11. Interest
- 12. Pensions and retirement salaries
- 13. Grants and subsidies
- 14. Equipment:
  - 14a. Furniture and fixtures
  - 14b. Instruments (medical and surgical)
  - 14c. Apparatus (physical and chemical)
  - 14d. Farm implements
  - 14e. Machinery
  - 14f. Livestock
- 15. Buildings, new construction, and improvements:
  - 15a. Buildings and fixed equipment
  - 15b. Roads, walks, and pavements
  - 15c. Sewers and drains

- 15d. Bridges
- 15e. Wharves and docks
- 16. Land
- 17. Payment of debt:
  - 17a. Sinking-fund installments
  - 17b. Debt payments not provided for by sinking funds
- 18. Working capital (rotary funds)

The titles of the above classification are largely self-explanatory. The subdivisions set down under a number of the titles indicate the general scope of the titles and are not meant to be exhaustive. Fees, commissions, retainers, and so forth are to be included under "other compensations" of personal services. Supplies and materials are combined under one title because the difference between the two groups lies mainly in the nature and physical qualities of the commodities and substances and is not important from the standpoint either of information concerning cost or of control over the expenditures for such things. Furthermore, the distinction is not a valid one, since oftentimes materials become supplies through use. Titles 3, 4, 5, 6 and sometimes 7, represent services that are bought by the government, the labor and equipment necessary to render the service being furnished, and in most instances the supplies and materials as well. This group is sometimes designated by the title of "services other than personal," "contract and open order," or "contractual services," titles that are to be avoided because they are misleading or indefinite in meaning. Titles 8, 9, and 10 are self-explanatory. Refunds (title 10) may be regarded as reductions of revenue and not as expenditures, but wherever states or cities have legal provisions requiring appropriations in order to refund moneys erroneously paid into the treasury, it will be necessary to retain this title. Titles 11, 12, and

13 include expenditures that are commonly known as fixed charges. Since fixed charges indicate the character rather than the object or purpose of expenditure, it has been avoided as a title in this classification. Titles 14, 15, and 16 are explained by the subdivisions under each. Title 17, payment of debt, includes only the redemption of debt and not the payment of interest. Working capital (title 18) covers expenditures made from rotary or revolving funds set aside for manufacturing purposes. A number of states and cities have constituted such funds out of which expenditures are made to supply prisons and other institutions with raw materials for the manufacture of goods. A title for contingencies has been purposely omitted, it being proposed (Chapter IX) that appropriations to organization units for all titles under current expenses be made in such manner as to be transferable. Besides, the budget-making authority should have one sum set aside by each budget out of which any unforeseen needs that may arise in any of the departments or institutions can be met.

Objection may be raised to the inclusion of as many as 18 main titles in an expenditure classification, but it must be borne in mind that only a very few of the organization units of state and city governments will have such a variety of expenditures as to require the use of all the titles. Probably the majority of organization units will not require the use of more than half of these titles.

### *Classification by Character*

As has been pointed out in the preceding chapter, after the services and commodities used by each organization unit in carrying on its work have been determined and classified, and the expenditures required for the same

have been ascertained, it is then necessary to know the character of these expenditures as an index to the possible means of financing them. In other words, it is necessary to know: (1) how much is needed annually to carry on the current work of the organization unit, and (2) how much is needed each year by the organization unit for investment in property of a lasting nature, such as lands, buildings, and equipment. The question of whether expenditures should be met out of current revenues or from borrowings should be decided mainly upon the basis of these distinctions. For this reason the two groups should be defined as clearly as possible. When it is decided to finance expenditures by borrowing and debt obligations have once been incurred, then it is important to know (3) how much is needed each year towards meeting the outstanding debts. These three groups show the expenditures for current running expenses, the expenditures for property and improvements from which benefits accrue to the future, and the expenditures to extinguish debts contracted in the past.

The New York comptroller's office uses a character classification that sets up expenditures under three main heads, namely, current expenses, including the cost of administering, operating, and maintaining the organization unit; fixed charges and contributions, including interest, indemnities, pensions, retirements, and prizes; and capital outlays, including the construction of buildings and improvements, and the acquisition of land. Virginia and South Carolina have adopted character classifications for budget purposes that divide the expenditures for organization units between operation and capital outlay. In Dayton the city expenditures are divided into two character groups: expense, including all expenditures for cur-

rent administration, operation, and maintenance; and capital outlay, including all expenditures that increase the capital assets of the city.

Since the grouping of expenditures by character is principally of value in budget making as a means of determining the financing policy, it is desirable, as has been pointed out already, to divide expenditures into at least three groups. These may be designated as: (1) current expenses and fixed charges, (2) acquisition of property, and (3) redemption of debt. Current expenses and fixed charges include overhead and operating expenses, upkeep of property, and definite charges accruing from year to year. Acquisition of property embraces expenditures for land, improvements to land, buildings, and equipment. Redemption of debt includes all payments to meet the principal of debts.

From the standpoint of policy, the current expenses and fixed charges group includes expenditures that should be met out of current revenues and should not be deferred if a sound financing policy is to be maintained by the government. The second group, acquisition of property, includes those expenditures that are converted into capital assets and from which benefits accrue to the future. The expenditures of this group may be met by borrowings. However, it is not considered good policy to borrow to purchase equipment unless it is bought in such large quantities as to increase unduly the expenditures of a single year, or is for the initial equipping of a building or plant. Replacements and renewals should always be paid for out of current revenues. The third group, redemption of debt, includes the expenditures needed to satisfy debt obligations that have been entered into in the past.

The character classification of expenditures for budget-making purposes should then appear as follows:

- I. Current expenses
- II. Fixed charges
- III. Acquisition of property
- IV. Redemption of debt

The relation of this classification to the object classification set forth in the preceding pages will appear by reference to the composite classification in subsequent pages of this chapter.

### *Classification by Funds*

The general need for classifying expenditures by funds has been pointed out in the preceding chapter. Practically every state and municipal government has charge of moneys that may not be expended for general governmental purposes, such as, current revenues set aside for special purposes, gifts for particular purposes, and money obtained by the sale of bonds. These usually constitute separate funds that must be taken into account in making expenditures. This necessitates the keeping of accounts and the rendering of reports covering the receipts and expenditures of each such fund. It is necessary, in making up the budget, to know the conditions and limitations attached to each fund with reference to its use and availability for appropriation by the legislative body, as well as the receipts into the fund.

All states and practically all cities have what is commonly called a "general fund" that is available for any purpose to which the legislative body may see fit to apply it. All receipts from revenues not applicable by law or contractual agreement to a specific purpose go into the

general fund. Besides this fund, practically all of the states and cities have what are known as "special funds" that are established for a specific expenditure or class of expenditures. Each such fund that is set aside curtails the general fund and, at the same time, restricts the general powers of the legislative body to appropriate the government's income. The primary purpose of setting aside special funds for certain work is to make the financing of such work, as compared with other work of the government, more secure. From the standpoint of the budget, special funds usually have the disadvantage of removing the estimates of the work financed by them from the scrutiny and consideration on the part of the budget-making authority, which is necessary to produce a well balanced budget plan. In Virginia, for example, only about half of the state's income goes into the general fund, and it is mainly concerning the expenditures from this fund alone that the governor makes recommendations to the legislature under the budget law. Furthermore, special funds usually amount to a permanent authorization to expend, a kind of indefinite and continuing appropriation. Thus, by the creation of special funds, a legislature can tie the hands of succeeding legislatures, taking away their power effectively to criticize and freely to pass upon expenditures made from such funds.

Besides the general fund and the special expendable funds noted above, the other general classes of government funds are sinking funds, working capital funds, endowment funds, and suspense funds. Sinking funds are moneys set aside for the redemption of long-term bonds and are commonly required by law to be held separate from all other funds in the treasury. Such funds are necessary wherever sinking fund bonds are in use.

Working capital funds are provided either by appropriation or by borrowing for carrying on manufacturing processes or construction work conducted mainly by public institutions. Such funds are usually replenished by proceeds from sales of goods or by transfers from other funds. Endowment funds cannot be expended, but the income from the investment of these funds can be expended for a specified purpose. Suspense funds contain certain receipts usually available for specific purposes that are temporarily held awaiting distribution. This last class of funds, however, is very rarely found in government finances, and for that reason is omitted from further consideration.

Expenditures may then be classified by funds for purposes of budget making as follows:

- I. General fund
- II. Special expendable funds
- III. Sinking funds
- IV. Working capital funds
- V. Endowment funds

*Suggested Composite Expenditure Classification for  
Budget-Making Purposes*

It has already been pointed out that in order to fix responsibility for expenditures the organization-unit classification should be regarded as the primary classification. When governmental activities are properly organized, the general functions of government will be shown as organization units and thus the functional classification will practically coincide with the organization-unit classification. Furthermore, it is useless as a means of financial control to set up functional groupings of expenditures that are not based upon definite and existing organization units with responsible heads. The expendi-

tures under each organization unit should be shown in terms of objects and of character. It is necessary, as has been pointed out, to know the objects needed, that is, the services and commodities to be bought and the obligations to be met, in order to estimate properly and correctly for the future. Then these objects should be divided according to the character of expenditure for financing purposes. The expenditures, actual and estimated, for any department, bureau, division, or institution, when set up under these two classifications, should be in the order of the titles in the composite classification given below. However, all titles would not appear under every organization unit; only those would appear under which expenditures had been made or were going to be made.

EXPENDITURE CLASSIFICATION FOR AN ORGANIZATION UNIT ARRANGED  
SO AS TO SHOW BOTH THE CHARACTER AND OBJECTS (SERVICES,  
COMMODITIES, AND OBLIGATIONS) OF EXPENDITURE

- I. Current Expenses:
  - 1. Personal services
  - 2. Supplies and materials
  - 3. Communication and transportation (services)
  - 4. Subsistence, care, and support (services)
  - 5. Printing, binding, and advertising (services)
  - 6. Heat, light, power, and water (services)
  - 7. Repairs and replacements
  - 8. Rents
  - 9. Insurance
  - 10. Refunds, awards, and indemnities
- II. Fixed Charges:
  - 11. Interest
  - 12. Pensions and retirement salaries
  - 13. Grants and subsidies
- III. Acquisition of Property:
  - 14. Equipment
  - 15. Buildings, new construction, and improvements
  - 16. Land
- IV. Redemption of Debt:
  - 17. Payment of debt

In connection with the above composite classification, or in a summary, there should be indicated the fund or funds out of which the expenditures of each organization unit have been or are to be met. This may be set up somewhat as follows:<sup>3</sup>

	Actual	Estimated
Total expenditures for organization unit .....	000000	000000
Funds paid from:		
General fund .....	00000	00000
Special expendable funds (list each, .....	0000	0000
Endowment funds (list each) .....	000	000
Total .....	000000	000000

## II. REVENUE CLASSIFICATIONS

The income of the government is designated by practically all state budget laws as "revenue." The term revenue, therefore, in budget usage has come to be almost synonymous with income, and to mean the reverse of expenditure or outgo. However, all moneys that may come into the state or city treasury cannot be regarded as revenue in the sense in which it is here used. The state or municipal treasury may secure money by the sale of bonds and this money may be used to meet the current expenses of the government, but just the same the state or city must obligate itself to raise at some future time an equal amount of money plus a certain amount for interest charges. In other words, borrowing is a means of deferring or of spreading over a longer period the raising of revenues; it enables the government to secure money immediately for capital needs or for emergen-

<sup>3</sup> See recapitulation sheet of estimate forms, Chapter V.

cies without at the same time increasing unduly the burden of taxation. States or municipalities may also levy special assessments for public improvements or for public services upon the localities benefited thereby, but the money derived from such assessments is not revenue in the sense in which the term is here used. Whenever money accruing from a special assessment is paid into the state or the city treasury, it automatically falls into a special fund, since it cannot be expended for any other purpose than that for which the assessment is levied. It is not available for meeting the general costs of government, or for providing for all general public needs. Special assessments amount to this: the government directs the doing of a piece of work in a locality and then, by virtue of its taxing power, assesses the cost of the work against the land of the persons benefited by it; the property owners are not contributing money to the support of the government, but are supposed to be fully compensated by the benefits conferred upon them by the improvements or by the services for which the assessments are made. Also certain funds, sometimes called "trust" funds, may come into the state or the city treasury for which the government is merely custodian. Such funds are not to be regarded as revenue. This does not mean, however, that no account is to be taken in the budget of moneys secured by borrowing or by special assessments, or receipts into funds of the kind just mentioned. Rather it means that moneys derived from such sources, or belonging to such funds, are not to be considered a part of the ordinary revenue that can be used to finance generally the current work of government. Furthermore, it is useless to attempt for budget purposes to compare other than the ordinary revenue of

the government with that of preceding years. Only on this basis can the true cost of government be ascertained.

### *Revenue Classifications Essential for Budget Purposes*

For purposes of budget information, the revenues available for meeting the general cost of government should be classified so as to set forth: (1) the sources from which revenues are derived; (2) the funds into which the revenues from the various sources go when paid into the treasury; and (3) the agency or agencies collecting the revenues from the different sources. The first may be designated a classification of revenues by sources, the second by funds, and the third by collecting agencies. The classification of revenues by collecting agencies, however, is not so important from the standpoint of the budget as the others are. When all moneys are required to be turned into the state or city treasury, such a classification shows merely responsibility for collection.

### *Classification by Sources*

Practically all states and cities designate their revenues by the sources from which they come, but only a few attempt to make any classification of such sources. Usually they are set down seriatim, no attempt being made to group the different kinds together. Perhaps the best example of a revenue classification by sources is the one used in the Ohio budget prepared in 1919. It shows the following classes of revenues according to sources: (1) sales, (2) service payments, (3) capital income, (4) fines and penalties, (5) contributions, (6) admissions, (7) miscellaneous, and (8) taxes. The first class

includes revenues from the sale of farm products and institution-made goods; the second class includes fees paid by patients in state institutions, examinations, inspections, tuitions, etc.; the third class includes interest, rentals, and proceeds from the sale of land; and the sixth class includes admission fees to state fairs and institutions. The other classes are self-explanatory. It will be seen that this classification, while suited to the particular needs of Ohio, is not applicable in general to other states and municipalities. The classes are not clearly defined, hence a miscellaneous group is set up as a catch-all.

A general classification of revenues by sources is suggested below. It is designed to be used in classifying the revenues of all states and cities for budget-making purposes. In case some of the classes are not represented among the revenues of a particular state or city they may be dropped, retaining only those classes under which revenues are accrued. The sub-heads under each class are not meant to be exhaustive, but are given merely to indicate the general scope of each class.

1. Taxes:
  - 1a. Property taxes (specify)
  - 1b. Poll taxes
  - 1c. Income taxes
  - 1d. Corporation taxes (specify)
  - 1e. Inheritance taxes
  - Etc.
2. Licenses:
  - 2a. Motor vehicle licenses
  - 2b. Business licenses (specify)
  - 2c. Professional licenses (specify)
  - Etc.
3. Franchises:
  - 3a. Public utilities (specify)
4. Privileges and Permits  
(Charges for minor rights—specify)

5. Fees:
  - 5a. Fees for legal services
  - 5b. Fees for inspectional services
  - 5c. Fees for technical services
  - Etc.
6. Rents:
  - 6a. Buildings
  - 6b. Real Estate
  - Etc.
7. Interest, Premiums and Discount:
  - 7a. Interest
  - 7b. Premiums
  - 7c. Discount
8. Sales of Services and Commodities:
  - 8a. Services of governmental enterprises
  - 8b. Sale of manufactured goods of institutions
  - 8c. Tolls.
9. Fines and Forfeits:
  - 9a. Fines
  - 9b. Forfeits
  - 9c. Penalties
10. Grants and Donations  
(Specify)
11. Escheats (in case of state governments)  
(Specify)

Such a classification as the above enables the legislative body and the people to know at once from what general sources the government's revenues come. It is obvious that the first class, namely taxes, supplies the bulk of the revenue of any state or city. This is the class, too, in which recently most new sources of revenue have been found. It will be seen also that the first five classes include practically all of those revenues that the legislature has the power to increase or decrease at will. The revenues falling in the other six classes accrue largely as a result of the operation of the government.

### *Classification by Funds*

Next in importance to showing the sources from which revenues are to be derived is a classification of revenues

according to the funds into which they fall when paid into the state or the city treasury. Nearly every state designates certain revenues that are to be set aside for specific purposes, such as the building and maintenance of roads and the running of schools. These constitute the special expendable funds already discussed. For example, Illinois has the following special funds: (1) fire prevention fund, (2) University of Illinois fund, (3) Illinois and Michigan Canal fund, (4) common school fund, (5) road fund, (6) Federal aid fund, (7) waterway fund, and (8) State bond road fund. All moneys paid into the Illinois state treasury, not belonging to one of these special funds, go to constitute the general fund out of which the legislature may appropriate for any purpose.<sup>4</sup> It is, therefore, very important for budget-making purposes that not only the sources of revenue and the amounts derived from each source be known, but also the fund or funds into which the revenue from each source falls and the restrictions upon expenditures from such fund or funds. The following form is suggested for the classification of revenues by funds:

I. General Fund:

1. Taxes
2. Licenses
3. Franchises
4. Rents
- Etc.

II. Special Expendable Funds:

A. Road fund

1. Taxes
2. Licenses
- Etc.

B. School fund

1. Taxes
- Etc.

C. Etc.

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<sup>4</sup> State Finance Code, Laws, 1919.

## III. Sinking Funds:

1. Taxes
2. Licenses
- Etc.

*Classification by Collecting Agencies*

The classification of revenues according to the collecting agency, while not of primary importance for purposes of financial planning, is important from the standpoint of showing responsibility for collection and in helping to determine the cost of collection. Nearly all state budgets show their revenues classified by collecting agencies. Perhaps the best examples of such classification are to be found in the first budgets of Illinois and Virginia. The following arrangement is suggested in classifying revenues for states by collecting agencies:

## I. Department of State:

1. Taxes
2. Licenses
3. Franchises
4. Fees
- Etc.

## II. Department of Agriculture:

1. Licenses
2. Privileges and Permits
3. Fees
4. Fines
- Etc.

## III. Department of Public Welfare:

1. Rents
2. Sales of Services and Commodities
- Etc.

## IV. Etc.

## CHAPTER V

### THE ESTIMATE FORMS

Having determined the character of the information required in preparing the budget and the classifications needed in arranging this information so it can be easily comprehended and used to the best advantage, we come to the question of the forms and methods to be used in collecting and bringing together the budget information.

#### *Expenditure Estimate Forms in Use*

Only in a few cases do state budget laws attempt to specify the information to be furnished by the written expenditure estimates, thus leaving the budget-making authority free to prescribe whatever forms may seem best suited to secure the information needed in preparing the budget. A notable example is the New Jersey budget law, which specifies in detail the information the estimates are to furnish. Already the experience of this state indicates pretty clearly that specific requirements in the budget law as to the form of the estimate blanks are superfluous, since they do little more than cumber the budget-making authority. The budget-making authority should be free to determine the form of the estimates and the character of the detailed information they are to present; then changes can be made as often as experience or conditions dictate without having to wait until the law is amended. Of course, when a satisfactory set of estimate forms has once been adopted, it is not wise to change the essential features any more than is

absolutely necessary, because such changes render it difficult to make comparisons with the expenditures of previous years. However, the details can always be varied.

Since the expenditure estimate forms of Virginia, Illinois, Ohio, and New York are fairly representative of the different types of such forms used by the several states as well as the cities having budget procedures, they will be considered briefly at this point.

In Virginia one form is used for all expenditure estimates. It is 17 x 22 inches in size and provides space at the top for the name of the agency making the estimate and the approval of its principal officer. It is intended to be filled out by hand, although a wide-carriage typewriter might be used. Special emphasis is laid upon the budget classifications (see preceding chapter for discussion); all requested services and commodities must be classified by functions, by character, and by objects. Account numbers and sub-classification of objects must be shown. Columns are provided for the appropriations and expenditures of the preceding year, the appropriations of the current year, the amounts requested for each year of the coming biennium, the increase or decrease of the amounts requested over the appropriations of the current year, and the governor's recommendations for each year of the coming biennium. Regardless of whether or not it is a stenographer, a ton of coal, an office desk, a new building, or a farm, the information requested is the same. While the title of the position or the name of the article is given, no further information is furnished beyond the amount appropriated and expended during the preceding year, the amount appropriated for the current year, and the amount requested for each of the two subsequent years.

The Illinois department of finance uses a separate estimate form for each of the eleven "standard appropriation accounts," and, in addition, a recapitulation sheet, a work program sheet, and a sheet for details and explanations (see preceding chapter, for list of Illinois standard accounts). These forms are 9 x 14 inches in size, that is, they are cut to fit an ordinary typewriter. Instructions for preparation are printed on the back of each sheet. The estimates are to be made in dollars only, and the recapitulation sheet is to be signed by the officer submitting the estimates. Under the first account, namely, salaries and wages, the title of each position must be filled in by the agency making the estimate, but the sub-classifications of most of the other accounts are printed on the sheets. The other information required by the estimates is practically uniform for all sheets: there is a column for the actual expenditures of the preceding year, a column for the estimated expenditures of the current year, and a column for the estimates of each year of the coming biennium. Perquisites are also to be estimated on the form for salaries and wages. Increases, decreases, and new items are to be indicated on all forms except those for repairs, buildings, and land.

The budget commissioner of Ohio used (1920) nine expenditure estimate forms,<sup>1</sup> one for each of the following titles: salaries; wages and unclassified; supplies; materials; equipment; contract and open-order service; fixed charges and contributions; land, buildings, and fixtures; and recapitulation. Each form is 19 x 26 inches in size and is printed on heavy calendared paper. This makes them so unwieldy that they must be filled out by hand

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<sup>1</sup> The newly created department of finance (1921), which assumes the powers and duties of the budget commissioner, will probably use similar forms.

rather than by the use of a typewriter. Instead of putting the estimates for both years of the biennium upon the same sheets, separate forms have been provided for each of the years, thus almost doubling the work of preparing the estimates, since each set duplicates the information of the other in all except the estimates for the particular year. The form for salaries asks for the title of the position under two columns—no change, and new position; section of law fixing salary; amount requested; comparison of request with current year rate; name of incumbent; date of last increase; and reason for increase. The form for wages and unclassified personal service requires the title of position or purpose; the amount requested, showing number of days and rate per day; and the expenditures made during each of the two preceding years and the first six months of the current year. The forms for supplies, materials, equipment, contract and open-order service, and fixed charges and contributions ask for the name of the commodity or service; the amount requested, showing quantity, unit of measure and unit cost; and comparison with expenditures of the two preceding years. The form for lands, buildings, and fixtures asks for land, the name of the tract, number of acres, location, date option expires, number of acres improved, present assessed value, buildings on tract, and amount requested; for buildings whether new or remodeled, location, kind, basis of figures, and requested amount; and for equipment the name, location used, unit cost, kind and quantity, basis of determining quantity, and request. Each form provides space for remarks and supporting data.

The joint legislative budget committee of New York uses four forms for expenditure estimates, one each for

personal service, maintenance and operation, new construction or permanent betterments, and recapitulation. The form for maintenance and operation is expanded into four sheets for the use of institutions, thus setting forth the sub-classification and itemization desired for such estimates. The sheets are 14 x 17 inches in size, a very convenient size for handling, and are perforated on left-hand margin for binding. Smaller sheets, 8½ x 14 inches in size, are provided for explanations and supporting data with reference to the items contained on the estimate forms. The personal service form has columns asking for the title of position and compensation rate; compensation for each of the two preceding years and for the current year; amount requested for the coming year; name of incumbent; commutation or maintenance in addition to salary; and comparison of estimate with current year's rate. The form for maintenance and operation has columns requiring a statement of the purpose; expenditures for each of the two preceding years; amount available for the current year and chapter of law authorizing amount; requests both for deficiency and the coming year; and a comparison of the current year's expenditures with the coming year's estimates. The form for new construction or permanent betterments calls for a description of the work; authorizations to date; appropriations to date; total contract liability; new authorizations requested; and new or additional appropriations requested, showing the amount to be spent for work done by contract and the amount to be spent for work done by the agency making the request. Institutions are required to show *per capita* costs for the different classes of expenditures. The value of home products must also be shown on the recapitulation sheet.

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STATE OF  
Expenditure Estimates for the Fiscal Years 1922-1923 and 1923-1924

## I. Current Expenses

Use this form only for

## 1. PERSONAL SERVICES

.....  
Department, Board, Commission, Institution or Agency.....  
Bureau or Division.....  
Location

Item No.	Position, Title and Rate of Compensation	Reference to Law or Order Fixing Compensation	Compensation for Previous Year, 1920-1921	Compensation for Current Year, 1921-1922	Compensation Requested			Name of Incumbent or "New Position" Specify	Commutation or Maintenance in Addition to Salary		Increase (+) or decrease (-) of Compensation Requested over that of Current Year		Budget-Making Authority's Recommendation		Memoranda (Leave Blank)	
					No. of Employees	Amount, 1922-1923	No. of Employees		Amount, 1923-1924	1922-1923	1923-1924	1922-1923	1923-1924	Amount 1922-1923		Amount 1923-1924
1			4	5	6	7	8	9	10	11	12	13	14	15	16	17

Some of the states have separate estimate forms for the departments and institutions. For example, Massachusetts has a set of forms for departments, a set for institutions, and a set for normal schools; while New Mexico has a set for departments and institutions in general, a set for educational institutions, a set for charitable and penal institutions, and a set for departments with an independent income.

### *Model Expenditure Estimate Forms*

It will be seen from the foregoing brief descriptions of the estimate forms of four typical states that there is a wide divergence of opinion as to the number of estimate forms needed, the size of the sheets, the amount, character, and detail of the information required on the forms, and the methods of filling out the forms. Because of this diversity in practice and the apparent lack of proper appreciation among a large number of states and cities of just what information ought to be and can be shown on expenditure estimate forms, there is presented herewith detailed exhibits of a set of model expenditure estimate forms.

Six forms are suggested for use. It is not considered possible to gather information of sufficient detail regarding all kinds of expenditures, especially for states and larger cities, by the use of a single form as is the practice in Virginia and cities like Detroit and Indianapolis. The character and details of information needed with regard to personal services are quite different from that needed concerning other current expenses, hence the reason for the separate Forms A and B. Likewise, the information concerning property to be acquired is different for each kind of property, that is, estimates for

STATE OF .....

**Expenditure Estimates for the Fiscal Years 1922-1923 and 1923-1924**

**II. Current Expenses and Fixed Charges**

Use this form only for

2. SUPPLIES AND MATERIALS
3. COMMUNICATION AND TRANSPORTATION
4. SUBSISTENCE, CARE AND SUPPORT
5. PRINTING, BINDING AND ADVERTISING
6. HEAT, LIGHT, POWER AND WATER
7. REPAIRS AND REPLACEMENTS
8. RENTS
9. INSURANCE
10. REFUNDS, AWARDS AND INDEMNITIES
11. INTEREST
12. PENSIONS AND RETIREMENT SALARIES
13. GRANTS AND SUBSIDIES

Department, Board, Commission, Institution or Agency .....

Bureau or Division .....

Location .....

Item No.	Commodity or Purpose	Expenditures for Preceding Year, 1920-1921	Appropriation for Current Year, 1921-1922	Appropriation Requested							Budget-Making Authority's Recommendation		Memoranda (Leave Blank)
				Unit of Measure	1922-1923			1923-1924			Amount 1922-1923	Amount 1923-1924	
					Quantity	Unit Cost	Amount	Quantity	Unit Cost	Amount			
1	2	3	4	5	6	7	8	9	10	11	12	13	14

the purchase of land should cover certain details not related to either buildings or equipment, also estimates for buildings, new construction, and improvements require a different type of information from that required for equipment or land. For this reason Forms C, D, and E have been devised. Forms D and E, however, can go on one sheet, since the number of estimates for such purposes from any agency will rarely require a whole sheet. Then a recapitulation sheet, Form F, is necessary for summary purposes.

While these forms have been devised with special reference to states, they are easily adapted to cities by merely changing the captions. If it is thought desirable to facilitate comparisons of the estimates with previous years' expenditures and appropriations, a column may be added to Forms B, C, and F showing increases (+) and decreases (—).

These forms should be printed on a medium-weight paper, such that carbon copies can be made when the estimates are filled out on a typewriter. The paper should also be of good quality and texture to withstand the necessary handling in reviewing the estimates. The sheets need not exceed 20 x 20 inches in size. This should give sufficient space for all the columns indicated on the model forms and, at the same time, it will not be large enough to be unwieldy in size. An ordinary wide-carriage typewriter can then be used in making out the estimates. Only one side of the form should be written on, otherwise it is very difficult to make carbon copies. There should be a small margin, perforated for binding, on the left-hand side of the sheets.

These forms have been devised for estimates covering a biennium, since most of the state legislatures meet bien-

## Expenditure Estimates for the Fiscal Years 1922-1923 and 1923-1924

## III. Acquisition of Property

Use this form only for

## 14. EQUIPMENT

Department, Board, Commission, Institution or Agency .....

Bureau or Division .....

Location .....

Item No.	Article and Description	Expenditures for Preceding Year, 1920-1921	Appropriation for Current Year, 1921-1922	Appropriation Requested						Budget-Making Authority's Recommendation			Memoranda (Leave Blank)
				1922-1923			1923-1924			Amount 1922-1923	Amount 1923-1924		
				No. of Units	Price per Unit	Amount	No. of Units	Price per Unit	Amount				
1	2	3	4	5	6	7	8	9	10	11	12	13	

nially and therefore appropriate for two years. In the case of cities or of states in which the state legislature meets every year, the columns covering the estimates for the second year of the biennium are to be dropped from the forms.

It will be seen that the data requested on the estimate forms follow the budget classification previously recommended (see preceding chapter). The recapitulation is made upon the basis of the titles of the object classification suggested. When Form B is used for institutions, the budget-making authority may indicate the sub-classification and amount of detail required by printing in the second column, "Commodity or Purpose," something like the following:

2. Supplies and Materials:

2a. Food

- Breadstuffs and cereals
- Coffee, tea, cocoa, etc.
- Dairy products
  - Butter
  - Cheese
  - Milk
- Eggs
- Fruits, canned and jellies
  - Dried
  - Fresh
- Meats
  - Beef, fresh
  - Smoked, canned
  - Fish, fresh
  - Salted, canned
  - Pork, fresh
  - Salted, smoked, canned
- Poultry
- Spices, extracts, etc.
- Sugar, syrup, etc.
- Vegetables, canned
  - Dried
  - Fresh

- 2b. Forage
  - Bran
  - Corn
  - Fodder
  - Grain
  - Hay
  - Oats
  - Straw

Etc. (following classification in preceding chapter)

Such a sub-classification, as the above, could be set down for titles 3, 4, 5, and 6 of the main object classification. The other titles could then follow with sufficient space between each to have the items written in by the agency making the estimates. This would insure uniformity in the submission of estimates from all institutions. A few states, notably Ohio, have attempted to secure uniformity by the use of a "code," showing where all commodities belong in the classification. This, however, is an unnecessary refinement for the majority of states and cities, considering their present stage of budget development, and is not here recommended. The various groups of commodities should first be worked out carefully before much attention is given to the individual object or commodity.

### *Sheets for Explanation of the Expenditure Estimates*

Each estimate form should be accompanied by a sheet, preferably the same size as the form, for explanation of the item numbers on the form. Each of these sheets should be captioned with the same classification title or titles as the form to which it relates, for example, personal services, etc. It should also provide space for the name of the agency filing the estimates and for the number of the sheet. All explanations on these sheets should be by item number, that is, the item number used on the

STATE OF .....

**Expenditure Estimates for the Fiscal Years 1922-1923 and 1923-1924**

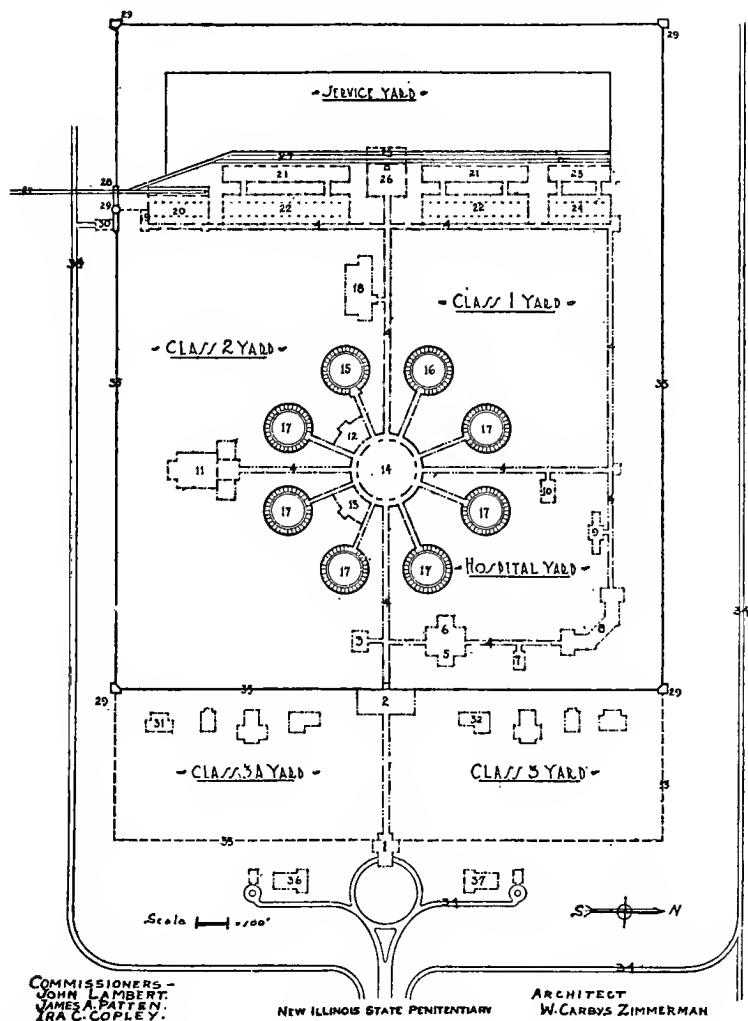
III. Acquisition of Property  
Use this form only for

**15. BUILDINGS, NEW CONSTRUCTION, AND IMPROVEMENTS**

.....  
*Department, Board, Commission, Institution or Agency*  
 .....  
*Bureau or Division*  
 .....  
*Location*

Item No.	Description of Structure or Improvement	Location	Authorizations Already Made		Appropriations Made to Date	Expenditures to Date	Estimated Total Cost of Project	Request for New or Additional Appropriations		Budget-Making Authority's Recommendation	Memoranda (Leave Blank)	
			Citation of Law	Amount				Amount 1922-1923	Amount 1923-1924	1922-1923	1923-1924	
1	2	3	4	5	6	7	8	9	10	11	12	13

# PLAN OF THE NEW STATE PENITENTIARY.



PLAN OF THE NEW STATE PENITENTIARY FROM THE ILLINOIS STATE  
BUDGET FOR 1921-1923

# STATE OF WYOMING

GOVERNOR'S OFFICE

MAP SHOWING

HIGHWAYS

UNDER CONSTRUCTION, COMPLETED AND CONTEMPLATED.

LEGEND  
 UNDER CONSTRUCTION  
 COMPLETED  
 CONTEMPLATED

BUDGET FORM 5 -

1 SHEET NUMBER

2 DEPARTMENT

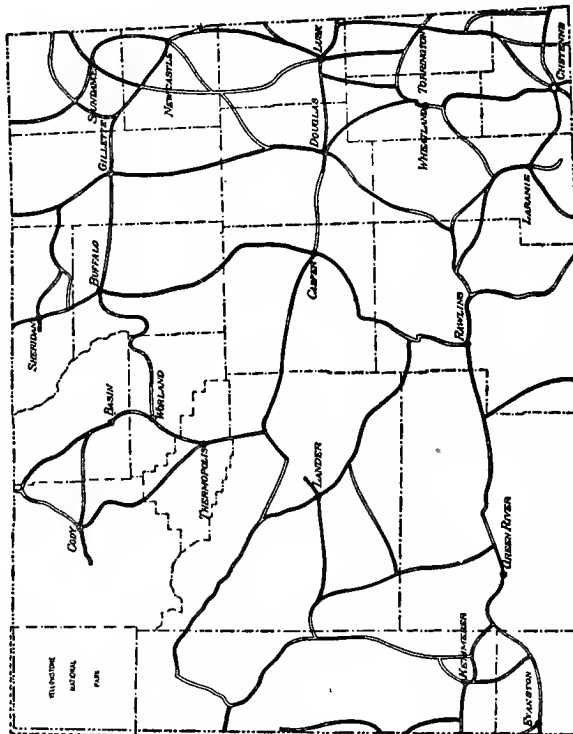
3 APPROVED BY

4 DATE

STATE HIGHWAY DEPT.

APPROVED BY

DATE



MAP OF STATE ROAD CONSTRUCTION FROM THE WYOMING STATE  
 BUDGET FOR 1921-1923

estimate form proper, and should be confined to as few words as possible, giving only the essential facts. On the explanation sheet, accompanying Form A, reasons should be given for salary increases or decreases, or new positions, and perhaps a brief statement of the employment record and previous increases. On the explanation sheet, accompanying Form B, should be explained the items where increases over the past year are requested. On the explanation sheets, accompanying Forms C, D, and E, full supporting data should be given, or reference to the source of such data; for example, the architect's plans, figures, etc., should accompany requests for buildings.

When institutional construction is undertaken, a complete plan of the proposed plant should be presented. This is illustrated by the accompanying "plan of the new state penitentiary" reproduced from the Illinois state budget for the biennium beginning July 1, 1921, p. 342. As work progresses on this plan it is noted and explained by reference to the numbers.

In constructing road systems and in laying out streets, maps should be presented showing the work completed, under way, and contemplated. The accompanying map, illustrating this feature, is reproduced from the Wyoming state budget, 1921-1923, p. 96.

### *Instructions for Preparation of Expenditure Estimates*

A brief set of instructions should accompany the estimate forms when sent out telling exactly how they should be prepared. These instructions should cover the following points:

1. Specify the final date for filing the estimates with the budget-making authority.

## STATE OF .....

## Expenditure Estimates for the Fiscal Years 1922-1923 and 1923-1924

## III. Acquisition of Property

Use this form only for

## 16. LAND

Department, Board, Commission, Institution or Agency .....

Bureau or Division .....

Location .....

Item No.	Name and Location	No. of Acres or Dimensions of Lot	No. of Acres Improved	Buildings on Tract and Estimated Value	Present Assessed Value—Land and Buildings	Amount of and Date Option Expires	Request for Appropriation		Budget-Making Authority's Recommendation		Memoranda (Leave Blank)
							1922-1923	1923-1924	1922-1923	1923-1924	
1	2	3	4	5	6	7	8	9	10	11	12

2. Specify the number of copies of the estimates to be filed.

Some states and cities require only one copy to be filed; others require several. For example, Virginia requires two copies to be filed; New York, six copies; and New Jersey, eleven copies. Three copies would seem adequate—two filed with the budget-making authority, and one retained by the agency making the estimates.

3. Require the estimates, if possible, to be made out on a typewriter. Then the extra copies can be made as carbons.

4. Require the estimates to be made in dollars only, omitting the cents. This saves paper, labor, and printing in getting out the budget; and besides estimates carried below the dollar are of no practical value.

5. Require the head or other responsible officer of the agency making the estimates to examine them carefully and to approve them by signing the recapitulation sheet, Form F.

6. Explain the budget classification of expenditures as adopted for use in the preparation of the estimates. (This classification is set up on the caption of the model estimate forms. For explanation of this see the preceding chapter.)

7. Explain in detail how to fill out each estimate form.

Form A is used for all personal services, such as salaries, wages, and other compensations, or fees, commissions, retainers, etc. It is preferable to group together all employees in the same department or bureau having the same title and rate under one item number. Column 2 would then read, for example, "Stenographers, 3 @ \$1,600 and \$1,800"; this being the rate requested for each stenographer for each year of the coming biennium.

## STATE OF .....

## Expenditure Estimates for the Fiscal Years 1922-1923 and 1923-1924

## Recapitulation

NO. OF EMPLOYEES	NO. OF INMATES, EXCLUSIVE OF PAROLES
------------------	---

Average 1920-1921 .....	Average 1920-1921 .....
Estimated 1921-1922 .....	Estimated 1921-1922 .....
" 1922-1923 .....	" 1922-1923 .....
" 1923-1924 .....	" 1923-1924 .....

## INMATES PER EMPLOYEE

Average 1920-1921 .....
Estimated 1921-1922 .....
" 1922-1923 .....
" 1923-1924 .....

.....  
*Department, Board, Commission, Institution or Agency*.....  
*Bureau or Division*.....  
*Location*.....  
*Date filed:*.....  
*APPROVED: Name of Responsible Officer*

Title No.	Expenditure Classification Titles	Expenditures for Preceding Year, 1920-1921		Appropriations for Current Year, 1921-1922		Appropriations Requested				Budget-Making Authority's Recommendation	
		1920-1921		1921-1922		1922-1923		1923-1924		1922-1923	
		Amount	Per Capita Cost by Title (for insti- tutions only)	Amount	Per Capita Cost by Title (for insti- tutions only)	Amount	Per Capita Cost by Title (for insti- tutions only)	Amount	Per Capita Cost by Title (for insti- tutions only)	1922- 1923	1923- 1924
1	2	3	4	5	6	7	8	9	10	11	12

1	2	3	4	5	6	7	8	9	10	11	12
	<i>I. Current Expenses</i>										
1	Personal services.....										
2	Supplies and materials.....										
3	Communication and transportation.....										
4	Subsistence, care and support.....										
5	Printing, binding and advertising.....										
6	Heat, light, power and water.....										
7	Repairs and replacements.....										
8	Rents.....										
9	Insurance.....										
10	Refunds, awards and indemnities.....										
	TOTAL.....										
	<i>II. Fixed Charges</i>										
11	Interest.....										
12	Pensions and retirement salaries.....										
13	Grants and subsidies.....										
	TOTAL.....										
	<i>III. Acquisition of Property</i>										
14	Equipment.....										
15	Buildings, new construction and im- provements.....										
16	Land.....										
	TOTAL.....										
	GRAND TOTAL.....										
	Payable from:										
	General fund.....										
	Special funds.....										
	(Specify each)										
	TOTAL.....										

In case the state or the city has a standardized civil service, the class and grade may also be indicated. Column 3 should be filled out whenever the compensation is fixed by constitution, statute, or ordinance. The name of the incumbent should be placed in column 10 only when it is a salaried position. Transportation, board, room, and so forth, furnished in addition to the regular salary should be indicated in columns 11 and 12. Columns 15, 16, and 17 should be left blank. As many lines as necessary may be used to record a single item. If all items required cannot be put on a single sheet of any form, other sheets of that form may be used, totaling each sheet at the bottom and carrying the total forward to the top of the next sheet. Space is provided in the upper right-hand corner of each form for the sheet number. In filling out Form B, columns 5, 6, 7, 9, and 10 are to be left blank for such titles as rents, insurance, and interest. In making out Form F, columns 4, 6, 8, and 10 are to be filled out by institutions only. The *per capita* cost for each title is found by dividing the amount by the average number of inmates or students for the year. The average number of inmates per year can be ascertained by dividing the total number of inmate days by the number of days in a year.

8. The instructions should contain a copy of the state budget law or the municipal budget ordinance. (This is for reference by the estimating agencies.)

### *General Work Plan*

It is often desirable to have certain information about the general work plan or program of an organization unit in order to judge properly of the adequacy or inadequacy of its expenditure estimates. The general work

plan shows that a department, board, commission, institution, or agency spent a certain amount last year, is spending a certain amount this year, and proposes to spend a certain amount next year for overhead supervision and for each of its principal activities. For example, a department of health may have, besides general overhead or executive supervision, the following main activities: prevention of communicable diseases; maintenance of diagnostic laboratories; prevention of tuberculosis; promotion of sanitation; hotel and lodging-house inspection; recording vital statistics; public-health instruction; child hygiene and public-health nursing; and promotion of social hygiene. If the department is of sufficient size and properly organized, these activities would each constitute a bureau or division, in which case the estimate sheets, Forms A to F inclusive, would give the desired information. But if the department is not internally organized so as to mirror its main activities, then the general work plan, Form G, should be filled out and submitted with the other estimate forms. The information contained on this form is of an administrative character and is not to be used as a basis for making appropriations (see Chapter IX). Executive or administrative allotments, however, may be made on this basis when the work plan is being carried out and the results shown by cost accounts. Form G should total the same for each department, board, commission, institution, or agency as the "grand total" of Form F.

### *Other Expenditure Data*

In those states and cities where certain institutions carry on agricultural, animal, or shop industries, information should be furnished as to the output and cost of these

FORM G

STATE OF .....  
**General Work Plan for the Fiscal Years 1922-1923 and 1923-1924**

APPROVED BY: .....  
*Name of Responsible Officer*

Date : .....

.....  
*Department, Board, Commission, Institution or Agency*

Activities (Specify Principal Activities of Organization Unit)	Expenditures for Work Done, 1920-1921	Expenditures for Work under Way 1921-1922	Expenditures for Work to be Undertaken		Memoranda (Leave Blank)
			1922-1923	1923-1924	

industries. This is needed especially when such industries are supported by appropriations made for state use, as is the case in New Jersey. A statement of the output and cost of such industries should show under output: (1) value of products sold; (2) value of products used by institution (exclusive of industries); (3) value of products used by industry (producing goods); (4) value of products used by other industries; and (5) total value of products. Under cost it should show: (1) cash expenditures (by appropriate titles of the object-expenditure classification); (2) cost of products used; and (3) total cost. Then the excess of cost over production or *vice versa* should be shown. At least four years should be shown, actual figures for the preceding year, estimated for the current year and for each year of the coming bien-nium (if the budget covers a biennium). A supplementary statement should show the value of the products used by the institution as chargeable to the appropriate titles of expenditures, namely, personal services, supplies and materials, etc.

Often schools conduct boarding halls. These should also furnish certain information to show whether or not the boarding halls are self-supporting. They should make out a statement showing the total amount of income from boarding pupils, meals, etc.; the total expenses classified by personal services, supplies and materials, heat, light, power and water, equipment, etc.; and the resulting surplus or deficit.

State and municipal debt requirements should be calculated by the chief financial officer of the state or the city. The estimates of the amounts needed during the next budget period for sinking-fund installments and for the redemption of debts not provided for by sink-

ing funds should be furnished by this officer to the budget-making authority (see p. 125).

### *Revenue Estimates*

Practically all of the state budget laws require the state auditor or the state comptroller to prepare and file estimates of revenues with the budget-making authority. The budget laws of New Jersey and of Kansas require the comptroller and treasurer jointly to furnish a statement of all estimated revenues to the governor, who is the budget-making authority.

In those states and cities where all moneys collected by the various governmental agencies are paid into the treasury, the principal accounting officer can very well make up the estimates of revenues. These estimates should be properly classified (see preceding chapter for classification of revenues), and should show the amount actually collected during the preceding year, the amount estimated to be collected during the current year, and the amount anticipated for each year of the succeeding biennium (if the budget covers a biennium).

While correct budget principles dictate that all moneys collected by governmental agencies should be turned into the treasury and all expenditures for these agencies should be accounted for through the treasury in pursuance to appropriations made by the legislative body, nevertheless, in a number of states and municipalities agencies are permitted to retain and to expend certain moneys that they have collected. In these cases complete estimates of such revenue should be furnished by the agency to the budget-making authority. These estimates should be classified by sources of revenue (see preceding chapter) and should indicate the general

STATE OF .....

**Revenue Estimates for the Fiscal Years 1922-1923 and 1923-1924**

(for revenues other than those paid into the treasury)

APPROVED BY: .....  
*Head or Other Responsible Officer*

Date approved: .....  
*Department, Institution or Agency*

Sources of Revenue	Revenue Receipts		Estimated Revenue
	1920-1921 (Actual)	1921-1922 (Estimated)	
			1922-1923
			1923-1924

purposes to which the revenue is to be applied. Form H is suggested for this purpose.

*Information from Government-Aided Agencies*

Several states, notably Maryland and Pennsylvania, appropriate public money to privately owned and conducted institutions and agencies, which are expected to render to the state in return therefor certain services. Money so appropriated is commonly known as "state aid." Some states have questioned the wisdom of making such appropriations and have enacted laws restricting the use of public money for such purposes. In the event that a state or a city appropriates money for government aid, it is good policy to keep such appropriations at a minimum. Experience has shown that the tendency is constantly to increase such expenditures at the expense of the regularly established activities of government. Maryland, for example, has recently been expending for state-aid purposes almost one-fourth of the money available in the general fund. Government aid should be given only where an institution or agency is carrying on activities that are clearly government functions and that the government is not prepared at the time to undertake. And then the budget-making authority should require written information concerning the work of the institution or agency and should supplement this by a thorough investigation conducted by its staff agency or other disinterested and competent persons.

While it may not be advisable in all cases for private institutions and agencies asking for government aid to furnish fully itemized expenditure estimates, they should at least furnish the information required on the recapitulation sheet, Form F, and the general work plan, Form

G. Special attention should be given, in the case of institutions, to the *per capita* cost data required on Form F, since by such data the efficiency of operating the institution is shown. *Per capita* cost, when considered in connection with the quality of service rendered, which should be ascertained by personal inspection, may serve as a guide to the budget-making authority in recommending appropriations. Such institutions and agencies should also furnish a revenue statement, using the revenue Form H explained in the preceding section. In the column captioned "sources of revenue" the following information should be supplied:

A. From sources other than the state (or city):

1. Endowments and investments
2. Gifts for current expenses
3. Charges for services
4. Sale of goods
5. Contributions
6. Other sources

Total

B. From the state (or city):

1. Appropriation

Grand Total

There are also numerous questions of public policy, the answer to which depends to a large degree upon information concerning the activities of such institutions and agencies. Full information relative to all institutions and agencies performing state functions is necessary in order to formulate a definite and well planned public policy for carrying on charitable, health, educational, and other work. Questions of the advisability of constructing more hospitals and enlarging existing ones, of providing more extensive state administered educational facilities, of the state assuming complete administrative control over the performance of such important func-

tions as the care of the insane and the feeble-minded, of the desirability of allotting the cost of charitable and correctional functions between state and local governments, and numerous other questions of general policy cannot be determined wisely without detailed information and careful study of the activities of all these private institutions and agencies.

## CHAPTER VI

### PREPARING THE ESTIMATES AND GATHERING OTHER BUDGET INFORMATION

#### *Methods of Securing Budget Information*

There are two general methods of securing budget information. One method is by means of written estimates; the other is by field investigations and records of a staff agency and by surveys conducted by other individuals and agencies. Practically all state and city budget laws require written estimates to be made in detail by the spending agencies to the budget-making authority. In most states and in a great many cities these estimates, when submitted, are accepted without field investigation on the part of the budget-making authority. In fact, in most cases, the budget-making authority has no staff agency for this purpose. A few states, like Illinois and Wisconsin, have staff agencies that investigate all estimates and keep currently certain records of all expenditures (see Chapter II). In the preparation of the first Virginia budget (1919) a number of special investigations, relating to the various financial problems of the state, were conducted by special committees appointed by the governor and by research agencies from without the state.

While written estimates are necessary and cannot be dispensed with in gathering budget information, they should always be supplemented by investigations conducted by a competent staff agency. The very fact that

such investigations are made insures that greater care will be exercised by the spending agencies in preparing their estimates.

### *Sending Out the Estimate Forms*

Practically all of the states and cities leave the preparation of the estimate forms to the budget-making authority or its staff. In Ohio, Illinois, and Nebraska the forms are prepared by the departments of finance, which act as staff agencies to the governor in the preparation of the budget. In Massachusetts they are prepared by the supervisor of administration, and in Idaho by the budget bureau under the governor's office.

Several state budget laws, notably those of Idaho, Illinois, Nebraska, and Wisconsin, specify a date for sending out the estimate forms. This date varies from one to two months before the date fixed for the filing of the estimates.

In Wisconsin the staff of the state board of public affairs inserts on the estimate forms, before sending them out to each agency, the actual and itemized expenditures of the agency for each of the three years preceding the year then current, as shown by the controlling accounts kept in the office of the board. Thus, the arrangement of the information and the degree of itemization are determined by the staff before the estimates leave the board's office, a certain amount of space being left for the insertion of new items by the spending agency. Upon receipt of these forms, each spending agency is required to insert the estimated allotment of appropriations for the current year and its requests for each year of the succeeding biennium.

*Responsibility for Preparation of the Estimates*

In order to fix responsibility for the preparation of the estimates a number of the state budget laws require the estimates to be certified to by the head, or other responsible officer, of the spending agency submitting them. The Maryland and West Virginia budget amendments require the estimates of the legislature to be certified to by the presiding officer of each house, and those of the judiciary by the comptroller or auditor. Kentucky, New Jersey, and Kansas go so far as to require all estimates to be sworn to by a responsible officer of the spending agency before submission to the budget-making authority.

The main purpose of these requirements is to fix responsibility for the estimates upon some one person either directly connected with the administration of the spending agency or controlling its expenditures. In a department or institution the one person who is in a position to view the work of the agency as a whole and who should assume, therefore, such responsibility is undoubtedly the head of the organization. This does not mean, however, that all the detailed work of preparing the estimates must necessarily be done under his immediate supervision. Each bureau or division should prepare its estimates, which should go with the approval of the bureau or division chief to the head of the department or institution. The departmental or institutional head should then examine all estimates carefully and should make such adjustments in the requests of the several divisions or bureaus as he may think proper in order to set forth a well rounded expenditure program for the department or institution. As evidence that this examination has been performed, he should be required to attach his signature

of approval to the estimates before submitting them to the budget-making authority (see estimate forms, preceding chapter).

*Relation of the Fiscal Period to the Preparation of the Estimates*

The relation of the date of preparing the estimates to the beginning of the fiscal period is very important. All estimates are only guesses applicable to a future period that are based upon past and present financial experience. Hence the nearer the spending officer is to the beginning of the future period, the more accurately he can guess. Since most of the state legislatures meet early in the year, usually in January, the estimates must be prepared during the latter part of the preceding year so that the budget may be ready for presentation to the legislature early in the session. For this reason, the date of preparing the estimates has been adjusted to the meeting of the legislature, and the period to which the estimates are applicable has so far received very little attention. In Massachusetts the date of the beginning of the fiscal year was purposely moved backward several months to December 1 in order that the legislature might have the actual expenditures of a year just closed when it met in January.

Most of the states that have recently changed their fiscal years have made them conform with that of the federal Government, namely July 1 to June 30. The fiscal years of a number of states begin in October or November following the meeting of the legislature, which puts the date of the preparation of the estimates 10 or 11 months ahead of the period to which the estimates apply. And, in the case of those states whose legislatures meet biennially,

the estimates for the second year of the biennium are prepared 22 or 23 months before the year begins. In other words, the spending agencies are asked to estimate their expenditures practically a year or two years before they begin to expend them. The fiscal years of all states should begin either on July 1 or on April 1 following the meeting of the legislature, July 1 being preferable so as to conform with the fiscal year of the federal Government. The legislature should then meet in February or March. Then the estimates can be prepared within five to eight months of the beginning of the fiscal period to which they apply.

In case of "federal aid" to state governments there is a decided advantage in having the fiscal year of the states conform to that of the national Government. Uniformity in the fiscal years of the states makes more comparable the financial statistics of the states. If the fiscal year begins July 1, the working year of educational and similar institutions is not broken up. With the fiscal year beginning shortly after the legislature adjourns it is not necessary to have "votes on account" for carrying on the work of the government until the budget can be acted upon by the legislature and the appropriations made.

In cities the fiscal year is most commonly the same as the calendar year. A fiscal year beginning either January 1 or July 1 is satisfactory for budget-making purposes, in the case of cities, since their legislative bodies meet frequently throughout the year.

### *Filing of Estimates*

In both cities and states the estimates are commonly filed directly with the budget-making authority or its staff agency. Some exceptions may be noted in the states.

In Arkansas and North Dakota the estimates are filed with the state auditor, who transmits them to the budget-making authority. In New Hampshire they are filed with the state treasurer. In New York copies of the estimates are filed with the comptroller and the governor, as well as with the joint budget committee of the legislature. The auditor of Massachusetts receives copies of the estimates, which go to the supervisor of administration's office.

### *Field Investigations*

Information gathered from field investigations should supplement all data contained in the written estimates submitted by the spending agencies. It is essential that either the trained staff of a central budget agency or disinterested specialists shall examine carefully the needs, especially those calling for repairs, new buildings, and the acquisition of property of each spending agency and report their findings to the budget-making authority. In this way the budget-making authority is furnished with a much broader basis for judgment in passing upon the requests; it has both the estimates of the agency asking for appropriations and the estimates of an independent agency or of disinterested specialists.

### *General Investigation of Estimates*

The general advantages of having a permanent staff agency to assist the budget-making authority in the gathering of data and in the preparation of the budget have already been pointed out in Chapter II. The Illinois department of finance, which is the budget staff agency of the governor, gathers information continuously for use in the preparation of the budget. Part of this informa-

tion is furnished by the controlling accounts kept in the department. Preceding the preparation of the budget, the superintendent of budget visits all the institutions and studies their needs and the *per capita* cost of their operation and maintenance. The staff of the Wisconsin board of public affairs makes field examinations after the estimates are received, a member of the staff visiting each department and institution. The information thus obtained is recorded for use by the board in making its budget recommendations and for presentation to the legislature in support of its recommendations. The budget staff agencies of other states and a few cities conduct somewhat similar examinations of the needs of the state departments and institutions.

### *Investigation of Particular Problems and Functions*

Surveys should be made to show the physical condition of the various buildings and plant structures belonging to the state or municipality. In many states and cities appropriations for repair purposes are made in a haphazard manner without adequate information being furnished as a basis. As a result some buildings are frequently neglected.

In preparing the 1919 budget the Illinois department of finance conducted a careful survey of the state's properties and developed a figure based upon annual percentage of depreciation. This figure was fixed at 2 per cent for stone and brick buildings and a larger percentage for machinery and power plants. For this work the department of finance secured specialists from the other code departments. The architect of the department of public works and buildings supervised the examination of all buildings and made written reports to the department of

finance concerning the nature and cost of all needed repairs. Likewise, the supervising engineer examined the machinery and estimated the cost of needed repairs and replacements.

The question of plant extension, or the development of a building program, is very important in budget making. Otherwise, millions of dollars may be expended in building and equipping a plant in a very unsuitable location, or in extending a plant in such a way as to hamper seriously its future development and operation. The institutions that the state or the city builds for educational, charitable, correctional, and penal purposes should be as advantageously located as possible, and the lay-out and development of the plant should be carefully planned. Hence it is necessary to develop a program extending over a number of years. For this purpose a comprehensive survey for determining the building needs of the state or the city for future years should be made in connection with the budget work.

Then the principal fields of state and municipal work, such as public health, need to be carefully surveyed by specialists who are not interested directly in the appropriations to be granted to the work. Sometimes organizations within the state can furnish such specialists, or they can be secured from research organizations from without the state. These specialists should work under the direction of the budget-making authority and its staff agency. The nearest approach to this kind of survey work has been attempted in Virginia. During the preparation of the first budget (1919) a large number of surveys were made of the various governmental agencies. These surveys were conducted by special survey boards appointed by the governor and by research agencies em-

ployed from without the state, the governor's secretary directing the work.

*Financial and Economic Survey of the Government*

A survey of the wealth, industries, resources, and taxable properties of the state or the city is needed as a basis for measuring the cost of government over long periods and as a guide in deciding on questions of policy. For example, a state may be spending a certain amount for a particular work and there may be good reasons why the work is of itself worthy of support, but when it is found that the state is thereby encouraging an industry that is on a steady decline because the resources on which it relies are being rapidly exhausted, then the whole matter is to be viewed in a different light. Where the state comes into vital relations with private economy, the status of that economy should be studied, and should be taken into account in the budget, which is to serve as a foundation for financial and administrative action. A revenue survey should include not merely an account of receipts, but of taxable resources as well. In other words, the economic and commercial conditions and relations of the government should be given a regular place in the budget.

Virginia was the first state to attempt such a survey. Its budget law requires "a general survey of the state's financial and natural resources, with a review of the general economic, industrial, and commercial condition of the commonwealth." In this survey the following subjects, which the governor speaks of in his analysis<sup>1</sup> or "budget message," were taken into account: national bank resources, agricultural development, mineral re-

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<sup>1</sup> Virginia State Budget, 1920-1922, p. xii.

sources, coal production, forest resources, development of water power, trade and commerce, and fisheries.

Other states, notably Wyoming,<sup>2</sup> have since given some consideration in budget making to a general survey of the economic condition of the state.

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<sup>2</sup> Wyoming State Budget, 1921-1923, p. x.

## CHAPTER VII

### REVIEWING AND REVISING THE ESTIMATES

#### *Why Estimates Should Be Reviewed and Revised*

Expenditure estimates are usually prepared by or under the supervision of bureau or division chiefs, who see mainly the work of their particular bureau or division and who do not have to consider how the money is to be raised to meet the expenditures. Such spending officers are apt to exaggerate their needs because of interest in their own work and because of lack of perspective and appreciation of larger issues. For this reason there is not only need for review and revision of bureau or division estimates by department heads, but there is also need for review and revision of department estimates by some general authority, who views the expenditures of the government as a whole. The estimates, as they are prepared, are the independent expressions of the needs of the various units of government; they ought to be brought together, compared, balanced the one against the other, and revised in accordance with their relative importance and in the light of available revenues and social needs. This must be done before they mean anything. A mere compilation of estimates set up by departmental clerks or by detached financial officers cannot serve the purposes of the budget. Experience in several states, notably New York, has shown that such compilations, no matter how well prepared by the comptroller or other officers, have been practically useless as guides in shaping legislative opinion. As a matter of fact the estimates so set up are

usually padded by the officers preparing them and therefore form no solid basis for legislative judgment. And they generally exceed by far the anticipated income of the government. This means that review and revision of the estimates by a responsible central authority is necessary; in fact, it is the only procedure by which a comprehensive budget plan may be developed.

*Review and Revision a Function of the Budget-Making Authority*

The person or persons responsible for submitting the budget to the legislature, that is, the budget-making authority, should review and revise the estimates. This does not mean, however, that the budget-making authority should do all the detailed work incident to review and revision, but that it should be sufficiently acquainted with the estimates to make recommendations in line with a general policy or in conformity with public opinion. The staff agency to the budget-making authority should do the preliminary sifting of the estimates, establish standards as far as possible, investigate the conditions of spending agencies, and judge existing services. The staff should furnish the expert or technical information and opinion with reference to the activities and needs of the government and the budget-making authority should make decisions after having balanced each service against every other, against public needs, and against the financial resources of the government.

Not only should the budget-making authority, by a thorough review of the expenditure estimates, propose an expenditure program to the legislative body, but it should, at the same time, propose a revenue program that is commensurate with the expenditure program. The

revenue estimates furnished by the chief financial officer of the government should be carefully reviewed by the budget-making authority. If the existing revenue laws are not likely to produce enough money to meet the proposed expenditure program, the budget-making authority should call upon the finance department or the chief financial officer for suggestions. In recommending new taxes, the budget-making authority should consider not only the revenue-producing power of such taxes, but also their effects upon the public economy.

### *Legal Provisions for Review and Revision*

Practically all of the state budget laws require the budget-making authority to review the estimates, but less than half of these laws expressly confer upon this authority the power to revise the estimates in the preparation of the budget. In most cases certain estimates are specifically excluded from the exercise of the power of revision on the part of the budget-making authority. Only in Massachusetts, Mississippi, New York, Tennessee, and Vermont is the budget-making authority given the power to revise *all* estimates. In Colorado, New Mexico, Oklahoma, South Carolina, and Virginia the budget-making authority may revise all estimates except those of the legislature and the judiciary; in Maryland and West Virginia it may revise all estimates except those of the legislature, the judiciary, and the public schools; in Minnesota it may revise all except the estimates of the legislature, the judiciary, the state university, and the state militia; in Nevada and Utah all except estimates relating to the legislature, public debt obligations, and fixed salaries; and in Wyoming all except the legislative estimates. In Illinois and Nebraska the head of the finance

department is given the power to approve, disapprove, or alter the estimates of the code departments before submitting them to the governor for executive consideration and recommendations.

In most cities the budget-making authority has the power to revise practically all the estimates. There are, however, certain financial obligations of the city, such as debt payments and some fixed charges, that the budget-making authority cannot change, at least, to any extent.

### *Cabinet Councils and Conferences of Administrative Officers*

Cabinet councils and conferences of administrative officers are necessary to sound financial planning. After the estimates have been brought together, the heads of departments and important agencies should be called together by the budget-making authority and should discuss in a matter-of-fact way the merits of their respective demands upon the treasury. This is made possible by a reorganization of the administration into a few departments, the heads of which are directly responsible to the chief executive, such as has taken place in Illinois, Idaho, Nebraska, Ohio, and Washington and in a number of cities. As a matter of actual practice in Illinois, the director of finance and the superintendent of budget examine the estimates and then call into conference the department heads and division chiefs of the code departments as well as the independent state officers. At these conferences the estimates are reviewed carefully and later revised by the director of finance. The revised estimates are then submitted to the governor, who reviews them carefully, calling his cabinet into council, and making whatever changes he deems necessary.

In those states, like Wisconsin, where the government has been organized under a number of boards and commissions, each so constituted as to be beyond direct executive control, the budget-making authority is usually a board composed of representatives of the most important of these boards and commissions. Oftentimes representatives of the legislature are included. Such a board is an attempt to bring together as a council the heads or responsible officers of the most important spending agencies of the state. It may work very effectively in the review and revision of the estimates, but it lacks leadership. There is no one person responsible for final decisions in cases of conflicts of judgment or opinion; all conflicts must be settled by compromises in which the best interests of the state as a whole may be disregarded. The governor, while representing politically the people of the entire state, has no more power and authority than does any one of a number of powerful administrative officers who are neither responsible to the people nor under the control of the governor. The same things are generally true in cities where commissions and boards of estimate have been constituted as budget-making authorities.

Most of the states still have a non-integrated, ramshackle form of government that has grown up mainly as a result of haphazard legislation by which new agencies have been created, year after year, with little regard for previously existing agencies, either as to the form of their organization or the scope of their powers. The officers of some of these agencies are responsible to the governor, others are elected by the people, and still others are responsible to managing boards or to the legislature. For this reason some states have constituted as the budget-making authority a board in which these various inde-

pendent elements of government find representation. Other states have tried to carry out the idea of making the governor the budget-making authority, but without a reorganization of their governments so as to center the lines of administrative responsibility in the governor. Pretty soon the governor, who has been placed in such a position, finds if his recommendations are to have weight with the legislature and if the legislature is to be restrained from giving ear to later demands of the different independent officers and agents that he must permit these various elements to take part in the determination of the budget recommendations. So the governor calls in representatives of the legislature and the more important administrative agencies to assist him in the review and revision of the estimates. Such has been the case in New Jersey and Virginia. In these cases the executive type reverts to the board type of budget. This can scarcely be avoided so long as a decentralized administrative organization is allowed to remain. The lines of responsibility for the different stages of budgetary procedure cannot be clearly drawn under such an organization (see Chapter XII).

### *Tentative Budget Proposals*

After conferences with the chief administrative officers, the budget-making authority should prepare, with the assistance of its staff, a tentative budget. Such a budget is necessary if public hearings are to be held. It has been the practice in several states to hold hearings on the original estimates, sometimes even before the estimates have been reviewed by the budget-making authority. In such instances hearings amount to little more than giving the spending agency an opportunity to make out a case

in support of its requests. The revenue side of the budget and the demands which it makes of the taxpayer are usually slighted.

After the spending agencies have presented their expenditure estimates and the chief financial officer has submitted the revenue estimates, then the budget-making authority should prepare a tentative budget, covering both the expenditures and the means of financing them. This tentative budget should be made available to the public a sufficient length of time before the hearings to permit of examination. Unless there is a comprehensive program presented in this way, no matter how tentative it may be, the public hearings will be without the proper and necessary basis for discussion. This tentative budget should not attempt to go into great detail, but should at least show the total amount requested by each organization unit and the total amount it is proposed to allow the same unit, indicating how much of this total it is proposed to expend for current expenses and fixed charges and how much for the acquisition of property. It might go to the extent of indicating how much it is proposed to expend for the various classes, as personal services, supplies and materials, and so forth. The total amount requested by all units of government and the total amount it is proposed to allow them should be shown, and this latter amount should be compared with the total anticipated income of the government. If the amount it is proposed to expend is greater than the total anticipated income, then the tentative budget should propose new sources of revenue. It is as important that proposed sources of revenue should be discussed at the public hearings as it is that proposed increases of expenditure be discussed. Always the two sides of the budget, the expenditure side

and the means-of-financing side, should be kept clearly in mind.

### *Public Hearings*

The budget laws of seven states <sup>1</sup> provide that the budget-making authority *shall* hold public hearings on the estimates in the preparation of the budget. The budget laws of 12 other states <sup>2</sup> provide that the budget-making authority, at its discretion, or upon request, *may* hold hearings on the estimates. The budget provisions of most of the larger cities require the budget-making authority to hold public hearings at some time during the preparation of the budget.

The main purpose of such provisions is undoubtedly to give publicity to the budget proposals in advance of the legislative session by permitting officers and citizens to register objections to the program of the budget-making authority. If the governor is the budget-making authority under an administrative organization that centers responsibility in him and if he or his representatives may appear before the legislature in open session to explain and defend the budget, then a provision for public hearings at this stage is largely gratuitous. Certainly the governor, for his own protection, would seek all of the advice obtainable before submitting his budget plan, and the public would be fully informed by the open procedure in the legislature for inquiry, review, and criticism of the budget plan. But until the legislatures adopt a procedure with respect to budgets that will fully inform the public on budget issues, public hearings conducted by the

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<sup>1</sup> Idaho, Maine, Oklahoma, South Carolina, Tennessee, Virginia, and Wyoming.

<sup>2</sup> Colorado, Connecticut, Kansas, Maryland, New Jersey, New Mexico, Nevada, North Dakota, South Dakota, Utah, Vermont, and West Virginia.

budget-making authority upon a tentative budget plan should be held.

The assistance of the press should be secured in making public the tentative budget plan, and the date and place of the hearings. Press reporters should be present at the hearings and report the salient facts brought out. In addition, representatives of spending agencies, taxpayers, or their representatives, should be encouraged to be present and should be given an opportunity to be heard. A record of the important facts brought out at these hearings should be made for the subsequent use of the budget-making authority in the final revision of the tentative budget and for the information of the legislative body. This method of procedure is particularly applicable to municipal budget making.

### *Final Revision*

In the light of the information gleaned from the hearings and from other sources, the budget-making authority, with the assistance of its staff, should make a final revision of the tentative budget plan. This final budget plan, together with collateral information, should then be set up in proper form for presentation to the legislative body. The form and contents of the budget will be taken up in the next chapter.

## CHAPTER VIII

### THE FORM AND CONTENTS OF THE BUDGET

The prime purpose of the budget, as has been pointed out, is to present a financial plan upon the basis of which the work of the government is to be conducted. The budget-making authority, whose duty it is to prepare the plan, should present it in a very simple and summary form, so that the legislative body and the people can view it at first in its broad outlines and then go into the details of the plan. The plan must be so set up that it may be understood easily by all persons whether they are familiar or not with the methods and technique of accounting. This can be done; in fact, every essential of the budget plan can be shown in one statement upon a single page.

The budget, then, as a document or set of documents, should show: (1) the budget plan as a whole, that is, a single statement, setting forth the complete plan, which is fully explained by supporting schedules and a "budget message;" and (2) supporting information, consisting of the detailed estimates and statements relating to the financial condition and operations of the government. The appropriation, revenue, and borrowing measures designed to carry the proposed budget plan into operation will be taken up in the next chapter.

#### I. THE BUDGET PLAN

It is proposed to present the complete budget plan in the form of a "consolidated budget statement," sup-

# CONSOLIDATED BUDGET STATEMENT

## Summary of Expenditures and Means of Financing for the Fiscal Years 1922-1923 and 1923-1924 Compared with the Fiscal Years 1920-1921 and 1921-1922

	Supporting Schedule Number	Current Biennium		Biennium Covered by Budget	
		1920-1921 (Actual)	1921-1922 (Estimated)	1922-1923 (Estimated)	1923-1924 (Estimated)
<b>Expenditures:</b>					
Current Expenses and Fixed Charges.....	1, 2, 3				
Acquisition of Property.....	1, 4				
Redemption of Debt: Not provided for by Sinking Funds.....	1, 6				
Sinking Fund Installments.....	1, 7				
TOTAL EXPENDITURES.....					
<b>Means of Financing:</b>					
Surplus at Beginning of Fiscal Year.....	1				
Revenues.....	1, 5				
Borrowings.....	1, 8, 9				
TOTAL MEANS OF FINANCING.....					
SURPLUS AT END OF FISCAL YEAR.....					

ported by a number of summary schedules and explained by the "budget message." There follows a discussion of these statements and exhibits of the forms to be used in presenting them.

### *Consolidated Budget Statement*

The consolidated budget statement is designed to present upon a single page the complete financial plan of the government for each year of the coming biennium, comparing these years with the current and preceding years.<sup>1</sup> The budget plan naturally divides itself into two parts: (1) expenditures and (2) means of financing expenditures. For the purposes of this statement, expenditures may be divided into: (1) current expenses and fixed charges, (2) acquisition of property, and (3) redemption of debt. These divisions are based upon the classification of expenditures by character, as set forth in Chapter IV. The first division includes those expenditures that must be made currently to run the government, that is, expenditures for administration, operation, and maintenance, and for other charges that must be met annually. The second division includes expenditures for property, such as equipment, buildings, and land, from which benefits accrue to the future. The third division includes the expenditures for the redemption of debt, either by direct appropriations or by sinking-fund installments. When a state or a city incurs temporary debts because of tax deficiencies or on account of emergencies, these may be shown as a fourth division under the heading either of "temporary loans to be met" or of "deficit." Since tem-

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<sup>1</sup> Since the majority of state legislatures meets biennially, the forms have been devised for a budget covering two years. When the budget is prepared annually, as in the case of cities and some states, one column is to be dropped.

Summary of Expenditures and Means of Financing for the Fiscal Years 1922-1923 and 1923-1924 Compared with the Fiscal Years 1920-1921 and 1921-1922, Classified by Funds

[illegible]

**Summary of Expenditures for Current Expenses and Fixed Charges from Various Funds for the Fiscal Years 1922-1923 and 1923-1924 Compared with the Fiscal Years 1920-1921 and 1921-1922, Showing Organization Units**

[illegible]

porary loans are currently met out of revenues, they may be shown as a deficit under expenditures when they exceed the surplus from revenues. Extraordinary and large expenditures that do not recur, as, for example, a bonus from the state to all its soldiers and sailors in recognition of their war services, should be shown as a fifth division, since to put such expenditures under current expenses and fixed charges, even if they might be regarded as belonging there, is to exaggerate that division of expenditures for a particular year so much as to make comparisons with other years practically worthless.

It is sufficient for this consolidated budget statement to show the means of financing expenditures under the following heads: (1) surplus, (2) revenues, and (3) borrowings. In other words, the surplus at the beginning of the period (if there be any) plus the revenues to be accrued during the period plus the money that is to be raised during the period by borrowing gives the total means of financing. If money is raised by the state or the municipality for public improvements by means of special assessments, this may also be shown as a heading under the means of financing expenditures.

It will be seen from an examination of this consolidated budget statement that every figure it contains is supported by summary schedules that go back to the detailed estimates and other data as a basis. In some cases the schedules support each other, as will be noted later. A score or more of these schedules might be set up, but it seems best to reduce the number to a minimum and to indicate clearly just what each schedule presents and how it supplements the general plan as set forth by the consolidated budget statement, otherwise there is danger of confusing rather than of clarifying the financial data.

The need for such a statement, as the consolidated budget statement described above, has not been fully appreciated by many state and city budget-making authorities. Some have not tried to produce such a statement; others have found it too difficult because of numerous funds and on account of obsolete accounting and reporting methods. The budget laws of a few states indicate that such a statement of the budget plan, showing the entire expenditures and the means of financing them, is to be set up; and all state budget laws will permit the setting up of such a statement. In a number of cities it is rather difficult under present laws to make the budget present a complete picture of municipal income and expenditures because of the independent character of some of the agencies making expenditures, for example, city school boards. But so far as possible these agencies should be brought into the municipal budget. The budgets of Maryland and Massachusetts, as presented to the 1920 legislatures, may be pointed to as containing among the best exhibits of a summary statement of the entire budget plan thus far presented in state budget documents.<sup>2</sup>

*Schedule 1: Expenditures and Means of Financing  
Shown by Funds*

Schedule 1 supports the several items and totals of the consolidated budget statement by breaking them up between the various funds of the government on the basis of the classification by funds as set up in Chapter IV. This statement is required, since it is necessary to know the fund restrictions that have been placed upon the in-

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<sup>2</sup> See Maryland budget, presented to the legislature January, 1920, pp. 17 and 18; also Massachusetts budget, presented to the legislature January 16, 1920 (House Document, No. 1000), pp. 32 and 33.

**SCHEDULE 3**

Summary of Expenditures for Current Expenses for the Fiscal Years 1922-1923 and 1923-1924 Compared with the Fiscal Years 1920-1921 and 1921-1922, Classified by Objects for Each Organization Unit

[illegible]

**SCHEDULE 5**

Summary of Revenues for the Fiscal Years 1922-1923 and 1923-1924 Compared with the Fiscal Years 1920-1921 and 1921-1922, Classified by Sources and Arranged by Funds

[illegible]

come and upon the expenditures of the government before the budget-making authority can finally formulate plans for increased services or for new undertakings and before the legislative body can judge of the merits or demerits of the proposed plans. In several of the states, California for example, about one-half of the state's income goes into special funds, hence an analysis by funds of expenditures and means of financing expenditures becomes highly important if the budget is to present a complete plan. Where a government has numerous special funds, as some states and cities have, this schedule will necessarily be rather lengthy but this cannot be avoided, since it is quite necessary to set up this information for budget-making purposes. The only way to avoid a long schedule is to reduce the number of funds. This should and can be done. Massachusetts may be cited as an example of a state that places practically all its receipts from revenue in a single fund—the general fund.

*Schedule 2: Expenditures for Current Expenses and Fixed Charges Shown by Funds and Organization Units*

Schedule 2 supports "current expenses and fixed charges" on the consolidated budget statement, also the column bearing the same title on Schedule 1. It separates fixed charges from current expenses and shows the organization units responsible for expenditures under the latter. "Fixed charges," as set up on this schedule, covers only charges against the government as a whole. For example, "interest," as it is shown, would comprehend only interest on long-term and temporary loans of the government. In case certain organization units should have interest charges, then they should be shown as a

# SCHEDULE 4

## Summary of Expenditures for Acquisition of Property for the Fiscal Years 1922-1923 and 1923-1924 Compared with the Fiscal Years 1920-1921 and 1921-1922, Classified by Funds, Organization Units, and Objects

Funds and Organization Units	Totals				Equipment				Buildings and Improvements				Land			
	1920- 1921	1921- 1922	1922- 1923	1923- 1924	1920- 1921	1921- 1922	1922- 1923	1923- 1924	1920- 1921	1921- 1922	1922- 1923	1923- 1924	1920- 1921	1921- 1922	1922- 1923	1923- 1924
I. GENERAL FUND:																
1. Department of Agriculture.																
2. Department of Public Works																
3. Department of Public Welfare.....																
Etc.....																
Total General Fund....																
II. SPECIAL EXPENDABLE FUNDS:																
A. Public School Fund.....																
1. Department of Education.....																
Etc.....																
B. Highway Fund.....																
1. Department of Public Works.....																
Etc.....																
Total Special Expendable Funds.....																
III. ENDOWMENT FUNDS:																
Etc.....																
Total Endowment Funds.....																
Grand Total.....																

sub-head under "interest," and likewise for the other divisions under "fixed charges." By setting up the organization units under current expenses, the total expenditures for administration, operation, and maintenance are shown for each organization unit and also the fund or funds from which the expenditures are met. If there should be several special expendable funds, only the total for all such funds should be shown on this schedule and this total should be supported by another schedule showing how it is distributed among the several special funds.

*Schedule 3: Expenditures for Current Expenses Shown by Organization Units and Objects*

Schedule 3 supports the column of Schedule 2 captioned "totals" so far as it relates to current expenses. It shows the total expenditures of each organization unit for current expenses distributed among the objects of expenditure, that is, among services and commodities. This schedule is built up directly from the recapitulation sheet (Form F) of the estimates. It is to be used as a basis for drafting the appropriation measures in so far as the appropriations relate to current expenses (see following chapter).

*Schedule 4: Expenditures for Acquisition of Property Shown by Funds, Organization Units, and Objects*

Schedule 4 supports the totals for the "acquisition of property" on the consolidated budget statement. It also supports the column headed "acquisition of property" on Schedule 2. It shows the funds from which the expenditures are made, the organization units making the expenditures and the objects (equipment, buildings and improvements, land) for which the expenditures are made.

## SCHEDULE 6

### Redemption of Bonded Debt not Provided for by Sinking Funds

Purpose of Loans (List Each Loan)	Law Authorizing Loans	Date of Issue	Rate of Interest	Total Amount Issued	Amount Outstanding	Annual Interest	Amount to be Redeemed During Biennium Covered by Budget	
							1922-1923	1923-1924

The figures from which this schedule is built up are taken directly from the recapitulation sheet, Form F, of the estimates. This schedule is to be used as the basis in drafting appropriation measures providing appropriations for the acquisition of property (see next chapter).

*Schedule 5: Revenues Classified by Sources and Arranged by Funds*

Schedule 5 supports "revenues" on the consolidated budget statement and the column headed "revenues" on Schedule 1. It shows the revenues classified by sources and as distributed among the various funds. It sets up a column for reference to existing laws providing for the various classes of revenues, and another column in which is to be indicated all proposed changes in the existing tax rates and other revenue charges as well as all new proposals for raising additional revenues. This schedule is prepared directly from the revenue estimates furnished by the chief financial officer. If it is desired, as is the practice in several states, to show the agencies responsible under the law for collecting the different kinds of revenues, another schedule can be made up for this purpose that will support this one.

*Schedule 6: Redemption of Debt Not Provided for by Sinking Funds*

Schedule 6 supports that part of the "redemption of debt" on the consolidated budget statement that is not provided for by sinking funds, also the column on Schedule 1 headed "redemption of debt" in so far as it does not relate to payments from sinking funds. This schedule shows the amount of the state's debt outstanding for which no provisions have been made for redemption by

## Statement of Sinking Fund Installments

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sinking funds and the amount it is proposed to redeem during the biennium covered by the budget. The interest charges shown on this schedule plus the interest on sinking-fund bonds and on temporary loans constitute the item "interest" under fixed charges on Schedule 2 in so far as this item relates to the government as a whole.

### *Schedule 7: Sinking-Fund Installments*

Schedule 7 supports the item called "sinking-fund installments" on the consolidated budget statement, also expenditures from sinking funds as shown under the column captioned "redemption of debt" on Schedule 1. The condition of each sinking fund is shown, together with the proposed annual installments during the period covered by the budget. The amount accruing to the sinking funds from revenues is shown in detail on Schedule 5.

### *Schedule 8: Proposed Bond Issues*

Schedule 8 supports "borrowings" on the consolidated budget statement and the column by the same title on Schedule 1. It sets forth an itemized list of proposed loans for each of the years covered by the budget, showing the purpose, term, amount, and interest rate of the proposed bonds.

### *Schedule 9: Redemption Requirements and Annual Interest Charges as Affected by Proposed Bond Issues*

As has been pointed out, it is very important in proposing new bond issues to take into consideration the distribution of the redemption of existing debt over future years. This is necessary, notwithstanding constitutional limitations on indebtedness, in order to spread the expenditures for the redemption of proposed loans in such

# SCHEDULE 8

## Statement of Proposed Bond Issues

Fiscal Year to be Issued in	Purpose of Loan	Organization Unit Expending or Directing Expenditure	Total Expenditure Required for Purpose	Total of Previous Bond Issues	Amount of Proposed Issue	Rate of Interest	Term of Bonds	Annual Interest Charge	Sinking Annual Fund Requirements	Annual Requirements Not Provided for by Sinking Funds (for example, Serial Bonds)
1922-1923										
Total										
1923-1924										
Total										

a manner as to even the debt charges over a number of years and not to over-burden any particular year. Schedule 9 is for the purpose of showing how the budget-making authority proposes to distribute the payment of proposed loans, and the effect this distribution will have upon the redemption requirements of the entire debt for each year of a period extending to the date of maturity of the longest bonds. This schedule supports Schedule 8.

### *The "Budget Message"*

Since people are in the habit of studying the problems of government mainly through the medium of newspaper stories, they should not be expected to take up and analyze a series of dry-looking tables filled with scores of apparently uninteresting figures in order to understand anything of the budget plan. What is needed is a story about the budget plan written in simple language and set up in an inviting style, a story that the newspapers would be eager to get and to print in part or as a whole. Such a story should constitute the "budget message." It should be prepared by the budget-making authority and should explain the important features of the budget plan as presented in the consolidated budget statement and the supporting schedules. Its purpose should be to put the budget in the news class with the baseball game, or at least to take this most important of all documents coming before the legislative body out of the category of the usually dry and oftentimes uninforming financial report. A letter of transmittal containing a few lines, or an explanation of the difficulties encountered in preparing the budget, such as is commonly found in state budget documents, will not do this.

It must be remembered that the budget is more than

## SCHEDULE 9

### Statement of Redemption Requirements and Annual Interest Charges as Affected by Proposed Bond Issues

Fiscal Year	Redemption Requirements of Existing Debt			Redemption Requirements of Proposed Bond Issues			Total Redemption Requirements if Proposed Bonds are Issued	Annual Interest Charges		
	Sinking Fund	Not Provided for by Sinking Funds	Total	Sinking Fund	Not Provided for by Sinking Funds	Total		Existing Debt	Proposed Debt	Total
1922-1923										
1923-1924										
1924-1925										
1925-1926										
1926-1927										
1927-1928										
1928-1929										
1929-1930										
1930-1931										
etc.										

just a financial report, it is a plan for the future financing of the government that is filled with questions of vital interest to every citizen and taxpayer. And there is no better way to bring these questions before the people than by a clear and concise message that can be read and easily understood. Among state budgets the Virginia budget, which was presented to the 1920 legislature, furnishes in the governor's "analysis" what is, up to this time, perhaps the best example of an attempt to write a budget message. In it the governor discusses briefly the financial and economic conditions of the state and presents certain facts relating to the budget that cannot be told effectively by tables of figures.

What the budget message should discuss, that is, the important points that it should lay stress upon, will depend to a considerable extent upon local conditions. In general, however, it should discuss the following:

1. The outstanding problems of the government's financial policy.
2. Proposed expenditures for current expenses and fixed charges as set forth on the consolidated budget statement and supporting schedules, explaining the increases or decreases over past expenditures. This may lead to a discussion of salary standardization, centralized purchasing, uniform accounting, departmental reorganization, per capita costs of institutional service, depreciation of buildings and plant equipment, etc.
3. Proposed expenditures for the acquisition of property as set forth on the consolidated budget statement and supporting schedules. Buildings and important construction projects should be explained, and attention should be given to the development of a building program for institutions. The question of whether the state or the city should acquire property or continue to rent may be taken up.
4. Proposed expenditures for the redemption of debt, setting forth the condition of debt and sinking funds of the state or of the municipality.
5. Means of financing expenditures, presenting the present

condition of the various funds, explaining any proposed changes in existing revenue laws, such as, increase or decrease of tax rate, etc. Discuss fully any proposed borrowings, giving the amount, term, interest rate and purpose of proposed bond issues, the requirements to be attached to their issuance and the effect such issues will have upon the redemption requirements and annual interest charges of the state or the city debt.

6. Condition of the various funds at the end of each of the years to be financed by the budget.
7. Statement of the wealth, industries, resources, and taxable properties of the state or the city as a basis for measuring the proper cost of government and in determining questions of policy extending over long periods.

The budget message should be printed in the budget preceding the consolidated budget statement and supporting schedules, and it should make reference to these and the detailed estimates in support of its statements.

## II. SUPPORTING INFORMATION

The supporting information to the budget includes the detailed estimates of expenditures and certain statements and reports concerning present and past financial conditions of the government.

### *Detailed Estimates*

The detailed estimates should show the complete information contained upon the estimate sheets of the various organization units and, in addition, the recommendations of the budget-making authority for each item or group of items. The estimates for the different organization units should be arranged in the same order as the units are grouped on schedules 2 and 3 preceding. In Maryland, Montana, and West Virginia this arrangement would be determined by the legal provisions, which require the budget to be divided into two parts: I—"Gov-

ernmental appropriations," including estimates of appropriations for (1) the general assembly, (2) the executive department, (3) the judiciary department, (4) to pay and discharge the principal and interest of the state debt, (5) salaries payable by the state under the constitution and laws, (6) public schools in conformity with the provisions of the constitution and laws, and (7) other purposes set forth in the constitution; II—"General appropriations," including all other estimates.

A few state budget-making authorities have regarded the printing of the detailed estimates as rather unnecessary. In the Illinois budget, submitted to the 1919 legislature, the supporting estimates showed only the standard expenditure titles, all details under each one being omitted. Besides, the estimates as printed did not show the amounts requested by the various spending agencies but rather the amounts approved by the governor following the review and revision of the estimates. That is, the governor considered all estimates and data received up to the time the budget was printed as preliminary and not as official. When the budget was submitted to the legislature, the members asked for more detailed information; they wanted to know the amounts requested by the spending agencies and the details for which they were requested. Thereupon the department of finance issued a detailed supplement to the budget, called the "book of estimates," which contained the original estimates in complete form. This is perhaps typical of the general attitude of legislatures throughout the country, and of the people as well. If they have occasion to feel that any information is being withheld from them, they immediately protest, even though the information not submitted may be of secondary value in the considera-

tion of the budget plan. In view of this fact it would seem wise to "put all the cards on the table" by printing in full the detailed estimates as supporting information to the budget plan. Besides, the detailed estimates are very often necessary to the proper review and consideration of the budget by the legislative body.

### *Financial Statements and Reports*

Several of the state budget laws, notably those of Maryland and Virginia, require that certain supporting statements shall accompany the budget, namely, a statement of the current assets, liabilities, reserves, and surplus or deficit of the state, a statement of the debts and funds of the state, and a statement of the revenues and expenditures of the last preceding fiscal year. In other words, they require a current balance sheet, a debt statement, and an operation account for the last preceding fiscal year. Such statements should likewise accompany municipal budgets.<sup>3</sup>

The current balance sheet amounts to a photograph of the financial condition of the government as of a particular day. It shows on one side the assets, such as cash on hand, taxes receivable, other accounts receivable, securities and investments, stores on hand, etc., and, on the other side the liabilities, such as accounts payable, warrants payable, vouchers payable, temporary loans, interest due, etc., with the resulting surplus or deficit.

The operation account shows whether the government is running ahead or behind financially. It is in the nature of a biography, that is, it shows the revenues and expenditures as they have accrued from month to month during

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<sup>3</sup> See F. Oakey: *Principles of Government Accounting and Reporting*, New York, 1921, pp. 180-258 and 441-469. This book is one of the best treatises written on the subject.

the year, and the totals accrued and incurred during the year. It shows current expenses and fixed charges as distinguished from the acquisition of property, also whether current expenses have been covered by revenues and to what extent expenditures for the acquisition of property have been met by borrowings.

The debt statement shows the total outstanding loans of the government, the securities and cash in the sinking funds to offset the total debt, and the resulting net debt of the government.

Certain other statements may be added that may also be helpful as supporting information to the budget. These are a surplus account, showing the condition of the current surplus or deficit, a statement of fund balances and transactions, a statement of appropriation balances and transactions, a statement of stores, and a statement of fixed property. Any additional information required by the legislative body may also be set up in this connection.

## CHAPTER IX

### APPROPRIATION, REVENUE, AND BORROWING MEASURES

According to the practices of nearly all of the states having budget methods, the appropriation, revenue, and borrowing measures are regarded as documents separate and apart from the budget. In a number of the states this distinction is made by the budget laws. The appropriation, revenue, and borrowing bills are generally looked upon as being the translation of the budget, or financial plan, into the legal form and terminology necessary for the enactment of the plan into law.

In municipal practices, however, this is not true. In a majority of the cities the only document prepared by the budget-making authority and submitted to the legislative body is the appropriation ordinance. The attempt is made to make this document serve a double purpose; it is to be used both as a budget document and as an appropriation bill. This method of presenting budget information is very unsatisfactory. An appropriation bill should not be extremely detailed (as will be seen later) and unless it is made so in the absence of a budget document, it gives the legislative body no information for purposes of criticism and review. Besides comparisons with past and present expenditures cannot be shown properly in an appropriation bill. Cities should follow the states in the practice of having two documents or sets of documents—one the budget, which sets up the complete financial plan and is purely informational in character, and

the other the appropriation, tax, and borrowing ordinances, which present the budget plan in the legal form necessary to put it into operation.

### I. APPROPRIATION MEASURES

More than a dozen of the state budget laws provide that the budget-making authority shall prepare an appropriation bill or bills embodying the expenditure proposals of the budget and shall submit it to the legislature along with the budget. This gives the budget-making authority the power to determine, or at least to suggest, the form in which the appropriations are to be made and also the conditions to be attached to their expenditure. In a number of states even a tentative appropriation bill or bills prepared by the budget-making authority has been helpful to the legislature when it came to adopt the expenditure plan of the budget. For example, in Virginia the governor's tentative appropriation bill was accepted by the 1920 legislature practically without alteration, that is, so far as the form, terms, and conditions of it were concerned.

Even though not required by law, there is no reason why the budget-making authority should not submit to the legislature bills covering its budget proposals. In fact, there are good reasons why it should. In the first place, when bills to carry out the budget plan are submitted with the budget, the legislature has something concrete to refer to its committees and to set to work upon; otherwise the legislature may be inclined to regard the budget merely as an administrative report and for that reason give little weight to its recommendations. In the second place, if the budget-making authority is to determine the classification of the estimates, as is done in

practically all the states having budget methods, then it ought to indicate by means of an appropriation act to what detail it thinks the classification should be followed in making the appropriations.

### *One versus Several Appropriation Bills*

If the expenditure proposals of the budget are to be presented in bill form, the question at once arises as to how many bills should be submitted. It is argued that from the standpoint of adequate handling by the legislature there is a distinct advantage to a series of bills based on the budget. In fact, several of the states allow the appropriations recommended in the budget to be set up in a number of appropriation bills. In Illinois, for example, where it is the practice to put the proposed expenditures of the budget in six or eight bills, it is claimed that everything that would be gained by a single bill in the way of coördinating the various expenditures of the budget plan and the legislative discussion of them is secured through the submission of a comprehensive budget by the governor. While this may be true in Illinois, there are, in most states, certain advantages to a single appropriation bill, or "budget bill," as it is sometimes called, containing all the expenditure proposals of the budget. The single appropriation bill or ordinance is now quite commonly used in cities.

The budget documents of a majority of the states amount to little more than a mere compilation of the estimates; nowhere do they present a complete plan of proposed expenditures and means of financing them. If the budget-making authority presents along with a budget of this character several appropriation bills containing its proposals for expenditures, the legislature is left in the

dark. Instead of a plan, the legislature has a patchwork of proposed expenditures. In such instances the single appropriation bill preserves the unity of the budget plan. When a number of appropriation bills are used, the appropriations of a particular organization unit are generally scattered through several bills, making it impossible to know at once just how much is being appropriated to each organization unit. In some cases it takes until several weeks after the legislature has adjourned to determine how much money has been appropriated to the various organization units of the government. Several states, recognizing the advantages of the single appropriation act in connection with their budgetary procedure, require all expenditures of the budget to be provided for in one bill. Then all other appropriation bills are regarded as supplementary bills, that is, supplementary to the budget plan of expenditures, and in some states they require a special legislative procedure for enactment (see next chapter).

### *Form of the Appropriation Bill*

The question of the form in which appropriations should be made is very important. The general practice in all states and practically all cities is to make the appropriations to organization units; that is, the agency that will be in immediate charge of the expenditure of the money is named in connection with the amount appropriated. This fixes personal responsibility for the expenditure of the appropriation and for the results to be secured as set forth in the budget and appropriation bill. In no other way can this essential element in carrying on the work of government, namely, responsibility, be so well established and maintained. Appropriations might

conceivably be made to general functions of government, as so much for the development of agriculture, so much for the preservation of health, and so on; but this would not fix responsibility for the doing of the work, unless we assume the existence of a governmental machine organized upon a thoroughly functionalized basis. The organization unit then should be the primary factor in making appropriations. It provides a sure basis for the establishment of accounting control.

### *Degree of Itemization of Appropriations*

The next point to be considered is the degree of itemization that should be made of the appropriations under each organization unit. This involves the old question of the "segregated budget," or rather of the "segregated appropriation act," since the budget is mainly a document of information and ought to be as detailed as possible.

Several years ago state legislatures and city councils generally made lump-sum appropriations. Then it was found that administrative officers having lump sums of money at their disposal used it for purposes in no way connected with the work they were intended to accomplish. In an attempt to check this abuse the appropriations were highly and rigidly itemized by the legislative body. No money could be drawn from the treasury except in accordance with the details specified in the appropriation act. This put a check on graft, but, at the same time, it bridled the free play of initiative and ingenuity in developing efficient administration. The legislative body had gone too far; it had attempted to determine for each office who should be employed, what salaries should be paid, who should be promoted or demoted,

and what kinds and quality of supplies should be used. In other words, it attempted to decide every petty detail of administration from six to 18 months in advance of the time when decisions should have been made. Under such conditions the use of judgment in the direction and control of the administration was next to impossible. Such success in administration as was attained under this rigid system of appropriations was the result largely of either winking at or disregarding altogether the provisions of the appropriation act.

There was another difficulty; detailed itemization of appropriations led to increases in all estimates for appropriations. Governmental agencies asked for more than they needed, so that they would not get caught short of services, supplies, and materials. When once they got the appropriations they asked for they always took care to expend all of them if possible, so that none might lapse into the treasury. This justified their asking for more the next time, and so it continued. Government under this scheme cost more than it otherwise should have cost.

A solution of the problem lies partly in the form of the appropriation act, but mainly in the reorganization of the government so as to develop responsibility and publicity and in the adoption and use of modern business methods (see Chapter XI and XII). A few states have practically solved this problem in so far as it relates to the form of the appropriation act by the use of lump-sum appropriations supported by itemized schedules and with a system of transfers under executive control. For example, the Maryland budget bills, passed by the 1918 and 1920 legislatures, make two or three lump-sum appropriations to each organization unit, which are supported by schedules itemized to whatever extent it is thought neces-

sary for proper control, the schedules being binding upon the administrative head unless he can show cause to the governor for changes and transfers within the schedule. All changes in the schedules must be reported by the governor to the next session of the legislature. In other words, Maryland finds it necessary to itemize to some degree her appropriations to each organization unit, but she avoids making this itemization perfectly rigid. After all it is the detailed and inflexible itemization of appropriations for current expenses that is harmful to efficient administration and adds to the cost of government.

### *Classification to Be Used in the Appropriation Bill*

Having decided that some degree of itemization is necessary, then comes the question of the classification that is to be used in setting up the items of appropriation under each organization unit. Should the classification of the appropriation items be by functions, or by objects (services and commodities) of expenditure?

Most of the states express the items of their appropriation acts by objects. Virginia, however, has recently adopted the method of making appropriations to functions. This is not a new idea; it was tried out about eight years ago in New York City and then abandoned. For this reason the Virginia scheme of making appropriations deserves attention at this point.

The Virginia appropriation act<sup>1</sup> makes appropriations in lump sums to what are regarded as the principal functions of the organization unit. That is, the organization unit is told how much money it shall spend for each function or activity carried on by it. Then to prevent the appropriation accounts from being charged falsely, espe-

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<sup>1</sup> Ch. 144, Laws 1920.

cially in the case of personal services, the act sets up a supporting schedule under the lump-sum appropriation to the function in which only objects appear. This means that when positive control over the expenditures is desired, the act resorts to the use of the classification by objects (services and commodities). The result is a mixing up of both the functional and the object classifications of expenditures. This, in effect, curtails the powers of the administration even worse than when the appropriations are highly segregated by objects; for while extreme segregation by objects only determines for the administrator just what services and commodities he shall purchase, segregation by both functions and objects determines for him not only what services and commodities he shall purchase but how he shall use them as well. For example, the Virginia state corporation commission is allowed five lump-sum appropriations, one for general administration, one for rate regulation, one for regulating public-utility companies, one for railroad-service regulation and mineral land assessment, and one for regulating the sale of securities. Under each one of these appropriations is a supporting schedule setting up all the salaried positions to be paid from the appropriation and naming the salaries to be paid. From these schedules it can be seen that the commission is not only told that it can have eight stenographers at specified salaries, but it is told that it must use five of these for general administration, and one each for rate regulation, for regulating public utility companies, and for regulating the sale of securities. In other words, the commission is told not only what services it shall purchase, but how it must use these services when it has purchased them. Obviously, this hampers administrative ability and ingenuity even more than the most

detailed object classification would do, since it takes away all discretion of the administrator as to how he shall use his employees. In this way the classification by functions does not promote efficiency, it only operates as a restriction on the use that may be made of the services. If an appropriation act in such form is strictly adhered to and is to work at all, it will necessitate transfers not only between classes of objects, as personal services, supplies and materials, etc., but also between items within a class of objects.

The actual practice in Virginia in controlling expenditures, since the passage of the appropriation act noted above, has been largely to disregard the functional basis of appropriations set forth in this act. In order to control the expenditure of the five lump-sum appropriations made to the state corporation commission (see above) the state auditor's office sets up on the appropriation ledger not five accounts, as one would expect, but two general accounts—one against which all personal services are charged and the other against which all expenses of operation other than personal services are charged. The total amount of each of these accounts was ascertained by subtracting from the total of the appropriations to the five functions the total of the schedules for personal services appearing under the lump-sum appropriation to each of the functions. When the payroll of the commission comes to the auditor's office, it is audited against the salary schedules set up in the appropriation act and then charged against the account for personal services in the appropriation ledger. All vouchers for supplies, materials, and so on, are charged against the other account and no attempt is made to separate them by functions, as was evidently intended by the appropriation act. When-

ever an organization unit has appropriations for capital outlays, as buildings and lands, which does not happen to be true in the case of the state corporation commission, a separate account is set up in the appropriation ledger for these expenditures. This makes a maximum of three general accounts to a single organization unit, two being for services and objects under current expenses and the other for capital outlays. The clerk of the corporation commission is keeping a set of books in which he is attempting to allot to each of the five functions set up in the appropriation act all of the commission's expenditures. This he finds very difficult to do, especially in the case of such things as postage and janitorial services. In many instances such allotments are merely his estimates of the distribution of expenditures. This would lead one to question the value for budget-making purposes of accounts kept on such a basis.

This discussion should not be taken to mean that the legislature might not find it advisable in some instances to make appropriations to functions. It does mean, however, that appropriations, when made to functions, are more difficult to control properly than when they are made to objects. When functions are introduced in the appropriation act, the appropriation accounts are likely to be falsely charged since they are kept on an expense or cost-accounts basis. Appropriation accounts are for the purpose of setting up authorizations to spend and the limitations to the amount of liabilities that may be incurred. Charges against such accounts must necessarily be in terms of purchases and payments, that is, they must relate directly to objects (services, commodities, and obligations). It is the conclusion, therefore, that effective control over expenditures can best be established through

appropriations made by objects to organization units. The objects or classes of objects, however, can be grouped to an advantage according to the character of the proposed expenditures.

*How to Set Up the Appropriation Bill from the Budget Statements*

The appropriation bill may be set up directly from the information contained on schedules 2, 3, 4, 6, and 7 supporting the consolidated budget statement (see preceding chapter). These schedules contain practically all the details that should be written into the appropriation act to insure proper control over the expenditures and, at the same time, not to hamper the free exercise of administrative ability. The appropriations to an organization unit should be set up in the form opposite.

It will be seen that this exhibit of the appropriations for an organization unit provides for not more than three lump sums, one for current expenses, one for fixed charges, and one for the acquisition of property. One or two of these headings might not appear, that is, an organization unit might not have any appropriation for fixed charges or for the acquisition of property. The lump-sum appropriation for current expenses is to be expended according to the supporting schedule wherein the main classes of objects (services, commodities, and obligations) are enumerated and the amount allotted to each is shown. It is to be provided that transfers can be made within this schedule between the several classes of objects (see next section). If the government does not have sufficient control over the personal services by means of employment regulations and standardization of positions, salaries, and grades, it might be well to enu-

## [NAME OF ORGANIZATION UNIT]

For current expenses to be paid from the general fund (if from other funds, specify amount from each) on the basis of the following schedule ..... \$ 000,000

### Schedule 1

Personal services .....	\$ 00,000
Supplies and materials .....	0,000
Communication and transportation .....	0,000
Subsistence, care, and support .....	0,000
Printing, binding, and advertising .....	0,000
Heat, light, power, and water .....	0,000
Repairs and replacements .....	0,000
Rents .....	0,000
Insurance .....	0,000
Refunds, awards, and indemnities .....	000

TOTAL ..... \$000,000

For fixed charges (name fund or funds to be paid from and amount from each) as specified below ..... \$ 00,000

Interest .....	\$ 0,000
Pensions and retirements .....	0,000
Grants and subsidies .....	000

TOTAL ..... \$ 00,000

For acquisition of property (name fund or funds to be paid from and amount from each) as specified below ..... \$ 000,000

Equipment .....	\$ 0,000
Buildings and improvements:	
Name each project and the amount appropriated for it; for example:	
Dormitory .....	\$000,000
Barn .....	0,000
Road .....	000
Sewer .....	000

Purchase of land:

Name each tract and the amount appropriated for its purchase; for example:	
Jones farm .....	00,000

TOTAL ..... \$000,000

TOTAL AMOUNT APPROPRIATED TO (name organization unit) \$0,000,000

merate under "personal services" the principal salaried positions and to place some restrictions upon transfers to this class from other classes of objects within the schedule. No transfers are permitted under fixed charges; the nature of these charges precludes the neces-

<sup>1</sup> It is to be provided in the appropriation act that changes and transfers may be made within this schedule by the head of the organization unit with the approval of the budget-making authority.

sity for transfers. Appropriations for the acquisition of property should be expended for the purposes for which they are made, and for this reason no provisions are made for transfers. In the case of buildings and improvements and the purchase of land, it is suggested that the objects for which the expenditures are to be made be specified; this, for example, would prevent appropriations for two buildings from being used in the construction of only one of the buildings.

It is a requirement in several states that the appropriations for the redemption of the state's debt are to be taken care of under a separate head and are not to be mixed up with the appropriations for organization units. If such appropriations are placed under some organization unit, as the department of finance, for the sake of fixing responsibility for payment, they should be set up as a separate head and should indicate how much is going into the various sinking funds and how much is for direct redemption. This applies likewise to municipal governments.

### *Conditions to Be Attached to the Appropriation Bill*

The following conditions and terms are regarded as essential and should be attached to the appropriation bill. Besides these any other terms and conditions that the legislative body may think necessary may also be attached.

1. The date when and the period for which appropriations are to be available should be specified. Likewise the organization units responsible for the expenditure of the appropriations should be specified. All appropriations should be available only for the payment of liabilities incurred during the fiscal period for which such appropriations are made and, at the end of this time, any unex-

- pending and unencumbered balances should revert to the treasury. This, of course, will depend upon the constitutional and legal provisions surrounding the government.
2. It should be provided that transfers may be made within the schedules supporting the lump-sum appropriations for current expenses to the various organization units. The schedules should indicate the initial distribution of these appropriations among the different classes of objects (services, commodities, and obligations). Each lump-sum appropriation should be paid out in accordance with the schedule that relates to it, unless and until such schedule is amended. The chief executive should make transfers in the appropriations for current expenses of his own office, and perhaps the legislative body should do the same thing. All other transfers should be made upon a request from the head of the organization unit, which should be approved by the budget-making authority and a copy of it transmitted to the auditor or comptroller before becoming effective. The auditor or comptroller should be required to pay out the appropriation, or whatever balance may remain, in accordance with the amended schedule. Finally, it should be provided that all transfers and changes in the schedules, made or approved by the budget-making authority, should be reported in the next budget.
  3. It should be provided that no person shall be employed whose compensation is to be paid out of the amounts set aside for "personal services" in the schedules under the lump-sum appropriation for current expenses, except in conformity with the standardized list of positions, salaries, and grades as adopted by the budget-making authority or the civil service commission.
  4. It should be provided that no contract or agreement shall be entered into for the purchase of supplies, materials, and equipment except in conformity with the standard specifications and regulations established by the budget-making authority or the purchasing agent to govern the purchase of such commodities.

### *Kinds of Appropriations to Be Avoided*

It is becoming more and more the practice among states and cities to appropriate for specific purposes definite sums of money for stated periods of time, as one or two years. This practice is in harmony with the budget

theory, that is, the idea of carefully planning every year or every biennium all the government's expenditures, taking into consideration at that time all expenditure needs and the resources to meet these needs. Several states and a number of cities, however, that have adopted budget methods, continue to make appropriations that are indefinite in amount, or that authorize the expenditure of receipts from certain revenues, or that, when once made, recur annually and may run on indefinitely. These kinds of appropriations may be characterized respectively, as: indefinite appropriations, revenue appropriations, and "continuing" appropriations. In authorizing the expenditure of money such kinds of appropriations should be avoided as far as possible.

### *Indefinite Appropriations*

Indefinite appropriations are those in which the amount to be spent is not specified. They are merely authorizations to spend for a certain purpose or a particular activity an amount necessary to accomplish the purpose or to carry on the work. It is impossible to formulate a budget plan upon such a basis of expenditure; not knowing definitely, or even approximately, the amount to be expended, it is practically an impossibility to plan definitely a means of financing such expenditures. Besides, adequate control, cannot be exercised over the expenditure of such appropriations.

### *Revenue Appropriations*

Revenue appropriations are authorizations to expend the receipts from certain revenues. In addition to being indefinite in amount, such appropriations are usually met by revenue receipts that are collected and expended

without being turned into the treasury. A common example is the payment of salaries by fees. With such a system of appropriations it is impossible to make the budget plan complete; always there are certain expenditures and receipts that cannot be accurately taken into account. The most satisfactory plan, from the standpoint of the budget, is to have all such receipts turned into the treasury while all expenditures are made upon appropriations from the treasury. Otherwise, it is impossible for the government to exercise any degree of control over such expenditures.

### *“Continuing” Appropriations*

“Continuing” appropriations are authorizations to spend, which, when once voted by the legislative body, permit expenditures to be made annually in the same amount until changed by a subsequent act of that body. Wisconsin is the most notable example of a state that has a system of continuing appropriations. Very recently Delaware, Kentucky, Maryland, Michigan, North Carolina, North Dakota, and Vermont have abolished by law or discontinued by practice continuing appropriations.

The arguments advanced in support of a system of continuing appropriations, as applied particularly to states, are:<sup>2</sup> (1) that “they continue until the law-making agencies have actually determined upon a change and positively expressed it,” thus preventing a failure on the part of the legislature to appropriate from shutting down departmental and institutional work; (2) that such appropriations permit administrative agencies to

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<sup>2</sup> See E. A. Fitzpatrick, *Budget Making in a Democracy*, New York, 1918, pp. 85-97 and p. 296.

plan definitely for the future, which they cannot do if they live under the "cataclysmic theory of administration," that is, merely getting enough to go ahead on for one or two years at a time; and (3) that continuing appropriations "prevent, to a considerable degree, legislative manipulation, and reduce the need for administrative 'dickering' with the legislature."

The first argument, concerning the possibility of a deadlock in the legislature, is answered by the Kentucky budget law,<sup>3</sup> which repealed all continuing appropriations and provided that "in event the general assembly shall fail or refuse to make appropriations for the ensuing biennium, then the appropriations for such preceding year for each of said departments, boards, institutions, commissions, or agencies shall continue until changed by the general assembly."

The second argument, as to planning by departments and institutions over a series of years, emphasizes the needs of the individual spending agency at the expense of the needs of the state as a whole and takes a rather narrow view of the problems of budget making. It is not the idea of the budget system that each organization unit of the state government shall make a plan and shall carry out that plan as far as possible independently of and without regard for the other organization units, but that each organization unit shall make a plan and shall submit that plan to a central authority, the budget-making authority, who is in a position to view the needs of all the organization units of the state and whose duty it is to work out from the individual plans, taking into consideration the financial condition of the state and the social needs of the people, a master plan for carrying on the

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<sup>3</sup> Ch. 12, Laws 1918.

work of the state government. After this master plan has been considered, changed if need be, and approved by the legislature, then it is the duty of each organization unit to expend the money appropriated to it not as if it were a separate and independent agency, but as one of several coöperating agencies designated to carry on the work of government. The system of continuing appropriations takes root in the administrative organization of the state. It involves a vital question, namely, independent board government, like that of Wisconsin *versus* an integrated administrative system toward which Illinois and several other states are working (see Chapter XII). If the state administration is to be broken up into a number of boards and commissions, each working more or less independently of the other, then continuing appropriations are desirable, certainly so from the standpoint of the administrative agencies. But if the state administration is to be departmentalized and integrated under a responsible chief executive, then continuing appropriations are undesirable, if not unworkable, and should be abandoned for unified financial planning.

The third argument for continuing appropriations, namely, that they prevent legislative manipulation and reduce the need for administrative dickering with the legislature, assumes that each administrative agency, when once granted a continuing appropriation, will be contented with it and will not seek changes and increases from the legislature. Such an assumption is not true; the majority of administrative agencies, even in Wisconsin, seek increases or, at least, changes in their appropriations every time the legislature meets. This being the case, is there likely to be less manipulating and dickering with the legislature under an administrative system

in which all the administrative agencies, being practically independent of each other and subject to no central authority, can go directly to the legislature with their requests or under an administrative system in which authority is centralized in a responsible executive and all requests must clear through his office? The answer is obvious. The remedy, then, is not continuing appropriations but administrative reorganization.

The real reason for continuing appropriations, as viewed from the standpoint of the administrative agency, is that they provide a means of permanent support, a sort of endowment on the part of the state, and afford, therefore, a source of security. Changes in such appropriations can be made only by a majority vote of both houses of the legislature. If, as is the case in Wisconsin, the administrative agencies are organized under boards whose members have long and overlapping terms, the possibility of exercising any central administrative control over them is slight. Under such a system moss-covered agencies and agencies incompetently managed may continue indefinitely. Certainly the tendency in state legislatures is to let agencies continue rather than to cut them off. When the question is left wholly to the legislature, it is quite possible for even a small minority of that body to perpetuate unnecessary agencies. After all, the important thing is the work to be accomplished, not the preservation of the agency; the agency is only the means of accomplishing the work. The budget should make provisions for doing work, not provisions for endowing governmental agencies.

## II. REVENUE AND BORROWING MEASURES

As a complement to the appropriation bill, the budget-making authority should prepare revenue and borrowing measures so far as such measures may be required to finance the proposed expenditures and should submit these to the legislature along with the budget and budget bill. If the budget-making authority proposes to expend more money than can be raised under the existing revenue laws, it should propose measures by which the additional revenues are to be raised; the legislature should not discuss and pass upon appropriation bills without considering, at the same time, the sources of income to meet these bills. The growing demands upon state and city treasuries alike make it impossible to decide wisely upon expenditures before the problems of the means of meeting these expenditures are taken into account. Some work may be wisely inaugurated if means are available, or postponed until a later time if they are not.

*Revenue Measures*

Practically all the states provide for the raising of money from the different sources of revenue by general laws. When once enacted, these laws continue in force until amended or repealed. As a result the annual income from the majority of the sources of state revenue is practically fixed. In order to give some flexibility to the amount of income from revenue, several of the states and all of the cities use the general property tax as the variable quantity and, within certain limits, increase or decrease their income from revenue by increasing or decreasing the rate of this tax. A few states, for example Alabama and Tennessee, revise and reënact practically

their whole revenue system at frequent intervals. In general, however, the budget-making authority would confine its revenue measures to changes in the rates of existing taxes or to proposals for new sources of revenue. The exact form that such measures would take will depend upon the requirements and practices of the particular state, hence no suggestions are here offered as to form.

It has been done in a few states, and is advisable, if possible, to bring together all revenue-raising provisions of the state laws in one chapter or article. This has the same advantages from the standpoints of legislative consideration and easy reference as the single appropriation act. States need also to do this because they should give increasing attention to their revenue laws.

### *Borrowing Measures*

If the budget-making authority proposes to borrow a certain amount of money to carry out its expenditure program, it should draft and submit to the legislative body measures for this purpose. Such bills, subject to the constitutional provisions placed upon the contraction of debt by the state or the city, should specify the purpose of the debt, the kind of bonds to be issued, the term of the bonds, the rate of interest, and make provisions for redemption.

## CHAPTER X

### LEGISLATIVE CONSIDERATION AND ACTION ON THE BUDGET

This chapter will consider briefly what legislative organization is best calculated to secure effective action on the measures submitted to the legislative body by the budget-making authority for carrying out the budget plan, also what legislative procedure is most likely to arouse public interest and scrutiny of the budget and to develop public opinion on the financial affairs of the government.

#### I. LEGISLATIVE ORGANIZATION FOR HANDLING THE BUDGET

##### *The Bicameral System and the Conference Committee*

All our state legislatures are composed of two houses, the main arguments for the bicameral system being that one house acts as a check upon the other in preventing hasty and ill-considered legislation and that double consideration of measures, especially financial measures, assists greatly to inform public opinion. Experience, has shown, however, that this is not always the case. In fact, these advantages do not result because of any inherent virtue in the bicameral system, but depend to a very large extent upon the character of the rules governing legislative procedure and the care and precision with which these rules are enforced.

One product of the bicameral system that should be especially noticed in this connection is the conference

committee. It is the means of settling differences of opinions between the two houses. For example, when the two houses cannot agree upon the contents of or amendments to an appropriation bill, a committee of two or three members from each house is appointed to adjust the points at issue. This committee meets behind closed doors to do its work and no written record is kept of its acts. When it has reported, the houses must accept its report without amendment. Obviously, such procedure has no place in the consideration of the measures connected with the budget. If the bicameral system is to be continued, steps should be taken to coördinate the work of the two houses in such a way as to avoid, as far as possible, the use of the conference committee. Even if the meetings of the conference committee were made public and its acts were a matter of public record, it is not the proper agent to settle issues concerning the budget policy of the state—this is the business of the legislature as a body.

In city governments the single-chambered council has been gradually taking the place of the double-chambered council, until now only a few cities retain the bicameral system. Quite recently (1919) Philadelphia abolished its large, unwieldy, two-chambered legislative body and constituted a comparatively small council, consisting of 21 members. Among the larger cities (over 200,000 population), only four, namely, Baltimore, Kansas City, Louisville, and Atlanta still retain two-chambered legislative bodies.

One of the principal contributions of the commission and the city-manager forms of government has been to do away with cumbersome city councils and to establish small legislative bodies, usually consisting of five or seven

members, that are continuously in direct touch with the administration of the government. The centralized mayor-council form of government has also worked in this direction. This simplification of legislative organization in cities has been conducive to better financial planning and greater legislative efficiency, especially in the city-manager and responsible-mayor forms of government. States might well profit in this regard by the experience of cities.

### *Standing Committee System*

Under the present organization of our state legislatures all bills are customarily referred to standing committees for consideration and report before being taken up and acted on by the houses themselves. Several states have six or eight separate committees concerned with the consideration of appropriation measures and the means of financing them. For example, Ohio has six committees, three in each house, concerned with appropriations, with the raising of revenues, and with the settling of claims. These six committees, acting independently of each other, are charged with the consideration of the budget plan presented by the governor. Each one proceeds to report out bills and to make recommendations to its particular house with very little knowledge of what the others are doing. A few states have constituted joint committees, thus insuring a certain amount of working coöperation between the two houses and avoiding, to a large extent, the use of the conference committee. Connecticut and Maine, for example, have systems of joint standing committees. In New Jersey and New York the two committees concerned with appropriation measures act jointly in practice. The budget laws of Virginia

and a few other states require the standing committees in charge of appropriation measures to act jointly.

These are attempts to change the organization of the standing committee system so that it will work with some degree of effectiveness in the consideration of the budget. But if the unity of the budget plan is to be preserved, further change is necessary. There should be a single joint committee of the two houses charged with the consideration of the entire budget plan, including appropriations for all purposes, revenues, borrowings, and other means of financing expenditures. This would require that the committees of the two houses be uniformly organized. There would also be an advantage in having the committee organization planned to fit in with the administrative organization where it has been reorganized and consolidated, thus permitting the departments to coöperate and advise with the committees on administrative measures.

## II. LEGISLATIVE PROCEDURE ON THE BUDGET

### *Submitting the Budget to the Legislature*

The budget laws of about three-fourths of the states require the budget to be submitted to the legislature by the budget-making authority either at the beginning of the session or some time during the first month of the session. In several cases, where the budget-making authority is the governor and the law requires the budget to be submitted at the opening of the legislative session, the out-going governor must prepare the budget for the incoming governor, that is, the old administration does for the new administration what it should do for itself. Maryland and a few other states have recognized this defect and have provided that the newly-elected governor

shall prepare the budget and shall have a longer period before presenting it to the legislature than a governor who has been in office for some time. Another solution of this problem has been suggested for states having biennial sessions of the legislature, namely, that the governor be inaugurated between the legislative sessions rather than at the beginning of such sessions. However, if the governor has the proper staff assistance and is given six weeks or two months after coming in office to prepare his budget, this would seem to solve the problem.

In a great many cities under the mayor-council form of government the budget is prepared by the out-going administration, and in some instances even passed by the council before the in-coming administration takes office. The period of budget making should be so arranged in these cases as to require the new administration to prepare the budget just after it comes into office. In most instances this can be done with slight charter changes.

### *The "Budget Speech"*

What should be made a very important feature, especially in state budget making, at the time of submitting the budget to the legislature is the "budget speech." The preparation and delivery of this speech should be the duty of the governor, either as budget-making authority or as chairman of the board, in case the budget-making authority is a board. Such a speech should present a résumé of the budget plan, and should be made to the houses of the legislature in joint session. It is an excellent means of giving publicity to the budget plan immediately it is laid before the legislature. It would explain to the people the salient features of the budget program, and would give the budget such an unusual set-

ting in its introduction as to stimulate the interest of the legislature in the study of the plan.

Budget speeches are not without precedent in this country. Governor Cox of Ohio appeared before the 1917 legislature in joint session and spoke to them on his budget. In 1919 Governor Lowden of Illinois and his director of finance addressed a joint session of the two legislative houses on the budget as presented to the legislature. In 1919 Representative Benjamin Loring Young, chairman of the house ways and means committee of the Massachusetts legislature, addressed that body on the finances of the state and the fiscal program outlined by the governor in his budget recommendations. This speech was quoted by the newspapers of the state and commented upon as a worthy and notable contribution in the field of state budget making.<sup>1</sup>

### *Procedure in Considering the Budget*

Only about half of the state budget laws contain any provisions with regard to legislative procedure in considering the budget. The best examples of such provisions are those of Maryland and Virginia. The Maryland budget amendment provides that the budget bill submitted by the governor to the presiding officers of the two houses shall be introduced immediately by them in their respective houses. The governor is given authority to amend or supplement the bill while in the legislature; and it is provided that the governor and such administrative officers as have been designated by him shall have the right, and, when requested by either house, it shall be their duty to appear and be heard with respect to the

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<sup>1</sup> See L. H. Gulick, *Evolution of the Budget in Massachusetts*, New York, 1920, pp. 176-182.

budget bill during its consideration. Under this procedure, however, the Maryland legislature has failed to develop effective review and criticism of the governor's budget plan. The standing committees of the two houses in charge of appropriations continue to work separately and their meetings are not usually public. There is very little discussion of the budget on the floors of the legislature. Publicity is not encouraged.

The Virginia budget law provides that the standing appropriation committees of the legislature must begin within five days after the submission of the budget to hold joint and open sessions on the budget. This joint committee may require representatives of the spending agencies to appear before it and may hear all persons interested in the estimates. The governor, or his representative, and the governor-elect are given the right to attend the meetings of the committee which are in the nature of public hearings, and to be heard on all matters coming before the committee. In Virginia, as in Maryland, the procedure used does not encourage and stimulate discussion of the budget plan on the floors of the legislature.

The ordinary standing committee procedure on the budget does not insure adequate discussion and publicity of the budget proposals. A procedure is needed that will bring the discussion and action on the budget plan into the open before the public eye. Some have recommended that state legislatures employ the committee-of-the-whole procedure in the consideration of the budget. Under committee of the whole the two houses of the legislature are informally organized so as to enable them to become critical agencies of the financial plan submitted by the budget-making authority. It permits non-mem-

bers, as the governor and the administrative officers, to come before the legislature to explain and defend their requests and to answer questions concerning the budget plan. The legislature would hold public hearings on the budget proposals under such a procedure. After the requests of each organization unit were discussed and voted on, the budget as a whole would be taken up and brought to a vote, then the committee of the whole would rise and report. This consideration would take place directly after the budget was submitted to the legislature, after which the budget-making authority would be allowed to amend for passage its appropriation and revenue measures on the basis of the information developed during the committee-of-the-whole procedure.

In view of the rather disappointing experience in some states with committee-of-the-whole procedure it might be more effective to permit of administrative participation in the legislative discussion of the budget under ordinary procedure. The budget laws of some half-dozen states provide for the participation of the governor and spending officers in the legislative discussion of the budget. If this provision were applied to all the states and seriously regarded by the legislature, it would certainly afford good opportunities for publicity on the state finances. Not only should the legislature require the administrative officers to appear before it, but these officers, since they are responsible for the expenditure of the moneys appropriated to them, should have the right to appear upon the floors of the legislature and make such statements as they may think necessary. In this way intelligent leadership would be developed in the administration and the members of the legislature would be better informed on the subject of state finances. A staff should

be provided for the legislature through which it might gather independently information relating to the budget. The legislature would then become a real criticizing agent of the budget and publicity in the legislative handling of financial measures would be practically insured.

City councils, too, are generally lax in their consideration of the budget. While they could work under a committee-of-the-whole procedure in considering city finances even more effectively than state legislatures, since they are nearly all unicameral bodies and, in most cases, are comparatively small bodies, they do not attempt to do so to any considerable extent. In the larger cities the council has a finance committee that considers the budget and reports to the main body its recommendations for appropriations. The procedure used in adopting these recommendations is much the same as in state legislatures and permits of very little publicity.

Since city councils meet frequently throughout the year, they usually make numerous changes in the budget plan before the year to which it relates is completed. In one way states have an advantage over cities in this regard, since state budget plans when once adopted are not "tinkered with" by the legislature during the year. In another way, states are at a disadvantage over cities because when emergencies arise or rapidly changing conditions call for some revision of the original state budget plan, it cannot be made without considerable delay and expense arising from the calling of an extra session of the legislature.

### *Action on the Appropriation or Budget Bill*

Practically all the states that provide for an appropriation or budget bill to be prepared by the budget-making

authority and to be submitted with the budget require that this bill be finally acted upon by the legislature before other appropriation bills are passed. Three of these states, Maryland, West Virginia, and Utah, fix limitations upon the power of the legislature to increase all or part of the items of appropriation contained in the budget bill. The most rigid set of such limitations is contained in the Maryland budget amendment. Under the provisions of this amendment the legislature cannot amend the governor's budget bill to change the public-school funds, or salaries and obligations required by the constitution; it may increase or decrease the items relating to the general assembly, or increase those relating to the judiciary, but can only reduce or strike out others. It is further provided that the legislature shall not *consider* other appropriations until the budget bill has been finally acted upon. By this latter provision the legislature is not only prevented from passing but from even considering other appropriations, which might preclude emergency measures of great urgency, until it has finally acted upon the governor's bill. After the budget bill has been voted, the Maryland amendment permits that the legislature may initiate supplementary appropriations, provided every such appropriation shall be embodied in a separate bill, limited to a single purpose, shall provide the revenues necessary to pay the appropriation thereby made by a tax, direct or indirect, to be laid and collected as shall be directed in said bill, shall receive the majority vote of the elected members of each house, and shall be presented to the governor and be subject to his veto.

Provisions, such as the above, seek to bring about by negative control over the acts of the legislature what

should be brought about by positive action in reorganizing the state administration. Certainly, in the past, state legislatures have been spendthrifts with the people's money, but they have been "aided and abetted" in their actions by the officers and agents of ramshackle and non-integrated administrations. As long as the state government is composed of 50, or 100, or 150 more or less independent units and agencies, each practically free to importune the legislature for appropriations, some way will be found to grant their requests, although the power to initiate appropriation bills drawing directly upon existing funds of the state treasury may be denied to the legislature. Anyhow, the legislature cannot be deprived of its power to determine policy; and so long as it enjoys the exercise of this power it can enact laws that will involve the expenditure of money without any direct appropriations being made. The effect is the same.<sup>2</sup>

The operation of the budget under the reorganized Illinois administration has already largely disproved the theory that the executive budget is workable only after changes have been made in the constitution limiting the power of the legislature in the matter of making appropriations. Here the governor, through his department of finance, has complete control over all the expenditures of the code departments, consequently he does not have to expend more than he deems necessary to carry on the work, no matter how much the legislature may authorize. However, the Illinois legislature, during each session, enacts several bills containing appropriations for local

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<sup>2</sup> Among the cities of the country Boston is perhaps the most notable example in which the power of the legislative body to appropriate city funds is seriously limited. No proposal to spend money may be originated except by the mayor, and no expenditure proposed by the mayor may be increased by the council. In case an item is reduced by the council, the reduction is subject to the mayor's veto.

purposes over the expenditure of which the governor has little control, but he has the power to veto such measures. These measures are considered in the next paragraph.

### *Special Appropriation Bills*

Special appropriation bills, usually referred to as "pork-barrel" measures, are those bills fostered by members of the legislature that contain appropriations for local purposes. The passage of such bills by the legislature has been a growing evil in a number of the states. The New York legislature stands at the top of the list on the passage of special appropriation bills; more than a hundred such bills, totaling several million dollars, were passed by the 1920 session and became laws with the governor's approval.

Conditions such as this one, have prompted states like Maryland to set limitations upon the action of the legislature with reference to all appropriation bills initiated by that body. But a legislative procedure that compels publicity on such measures will do more than constitutional restrictions to prevent the passage of pork-barrel appropriations. The actions of legislators are controlled more by the fear of public opinion than by reverence for the provisions of the constitution. As a means of preventing pork-barrel legislation the governor's veto power does not seem to work very effectively.

In handling special appropriation bills the same open and above-board procedure should be used as is recommended for the consideration of the budget measures proper. Before final action on such bills the effect they will have upon the budget plan should always be taken into consideration. In order to prevent attempts to rush such bills through the legislature during the closing days

of the session two things are necessary: one is reform in the legislative procedure, as commonly practiced, for handling bills; and the other is a legislative session without any limit as to length. The legislative rules should set a time limit on the introduction of all bills, say, not later than the end of the first month of the session; should establish a joint committee of the two houses for the consideration of all appropriation and revenue measures, as already recommended in this chapter; and should set a time limit on the reporting out of bills by this committee as well as all other committees.

This is in brief the procedure now used in Massachusetts, where it has operated very effectively in preventing congestion at the close of the session. A strict time limit is set by Joint Legislative Rule No. 12 upon the introduction of bills, none being received after the end of the second week of the session. While this rule is not always adhered to, its effect is very salutary. Concurrent action by four-fifths majority of each house is necessary to suspend it. This makes possible the enforcement of a second rule (Joint Rule No. 10), which requires the joint committees to make final report on all bills early in the session, and also that all bills that are not reported out by the committees be referred to the next legislature. Under this rule the legislature knows by the middle of April, at the latest, just how much business remains to be accomplished. After that date the session usually continues for two more months, there being no limit on the length of the session. Under this procedure each committee is required to report to the legislature each week the status of business before it. This enables the presiding officers to apply pressure wherever it is necessary to spur up the committee work.

## CHAPTER XI

### BUSINESS STANDARDS AND METHODS NEEDED IN CARRYING OUT THE BUDGET

In carrying into operation the budget plan three important problems demand especial consideration, namely, employment, purchasing, and accounting. These are the big general problems of administration; these are the problems that are more or less common to the work of all agencies of government. As a measure of the importance of employment and of purchasing, it has been estimated that from 60 to 80 per cent of the current expenditures of state and city governments is made in payment for the services of persons and for the purchase of supplies and materials. Obviously then, if the budget system is to be made effective as a means of financial control, standards and methods for determining efficiency in employment and for promoting economy in purchasing should be adopted and used. It is also very essential that all expenditures of state and municipal governments should be controlled by accurate and efficient methods of accounting and reporting. Without the facts developed by such methods the budget cannot be made a complete and reliable document of information.

#### I. EMPLOYMENT STANDARDS AND PERSONNEL CONTROL

If the work that is planned by the budget is to be successfully carried out, there must be efficient administration. Good administration depends to a very large degree upon the training and ability of public employees. The

employment of such persons presents a number of problems, such as, classification of positions, standards of compensation, methods of rating efficiency, and so on, that are particularly related to the subject of budget making.

### *Questions Involved in Public Employment*

For the purposes of this budget-making discussion the whole problem of public employment may be resolved into three questions, as follows:

1. What jobs are necessary?
2. What should efficient incumbents be paid?
3. How can efficient employees be secured and retained?

The first one of these questions involves a consideration of the general policy and administrative organization of the government. The second one involves a study of positions and salary rates. The third one directs attention to the methods of securing and retaining efficient services. These will now be taken up in the order named above.

### *Relation of Personnel to Administrative Organization*

There is a chain of processes involved in the building up of an organization unit or agency of government for administrative purposes. In the first place, there is the development of the policy, in other words, a determination of the work to be done, as explained in Chapter III. In the second place, there is the establishment and development of the organization unit or agency to carry out the policy, that is, to do the work. Action by the legislative body is not usually taken beyond this point. After the work has been departmentalized, there is the distribution

of the related activities among bureaus, divisions, and, finally, individual positions. Then follows the adoption of time-saving methods and effective procedure for carrying on the business of the department. The internal structure of the organization and the methods of management are ordinarily and more properly left to those in charge of the department. It is the duty of the department head to determine the minimum number of positions of each class needed to handle the work of the different bureaus and divisions. The classes and numbers of positions needed will depend upon the general organization, the extent to which overlapping and duplication is avoided, the methods and procedure used, and questions of general administrative ability. The subject of general administrative organization and its relation to the budget will be considered at length in the next chapter.

### *Classification of Positions and Standard Rates of Compensation*

In the majority of states and cities the salary and wage rates for positions involving like duties and responsibilities and calling for practically the same qualifications show wide variations. The rates for positions of the same kind or class are different in different departments and agencies. Usually state and city governments have no standards to guide in fixing the pay of employees and no working plan for relating the salaries appropriated to the character and importance of the work for which such salaries are to be paid. The designations of positions appearing in the budget estimates are, in a large number of cases, inaccurate and misleading, still the appropriations must be based on these. Often there is a large number of unnecessary titles of positions that might

easily be reduced. Usually there is an absence of any uniform plan or system for regulating increases in the pay of employees.

These conditions in state and municipal employment should be met by a careful study in each case of the kinds of positions and the rates of pay from which would be worked out a classification of positions and standard rates of compensation. This classification and rates of compensation should be administered by the civil-service commission in those states and cities that have such commissions and in other states and cities by some agency of general administration, like a department of finance. The civil-service commission or other agency would recommend to the budget-making authority amendments to the classification or new rates of compensation for new or existing classes of positions that would become effective with the proper approval. All estimates for appropriations and payments for personal services would be made under the title of the class and in accordance with the rates of pay applying to the class that the civil-service commission or other agency certified as applicable to the position in which such services are to be or have been rendered.

With this kind of a system, appropriations for personal services may be made in lump sum and the proper control over their expenditure would be insured just the same as if the appropriations were highly itemized. Every position and salary would not then be the subject of legislative determination. Besides, the legislative body would have a sound and practical working basis for determining appropriations for personal services.

*Securing and Retaining an Efficient Personnel*

Equally as important as the problems of organization and standardization is the problem of securing and retaining a competent and industrious personnel. There should be an employment policy to provide for the scientific selection and the systematic training of employees, the careful measurement of individual efficiency, the advancement and promotion of the deserving, the elimination of the inefficient, and the retirement of the incapacitated. In order to carry out such a policy the state or city government needs a central personnel agency, such as a civil-service commission, a department of finance, or other general supervising agency.

An efficient personnel in government service depends very largely upon the methods used in its selection. Once incompetent employees have got into the service, the most carefully planned and administered measures for promoting efficiency will amount to little. The methods of selection should be such as not only to prevent incompetents from coming into the service, but to secure those who have real ability and fitness for the work in question. In filling any position there should be an analysis of the duties to be performed; the qualifications needed for the discharge of these duties should be determined; and tests that will discover the type of employee desired should be established.

After persons have entered the service there is great need for some means of training them for increased usefulness in the service. Many business corporations and even a few cities have found training courses of great practical value both as a means of increasing efficiency and adding to the *esprit de corps* of their employees.

Such training should be supervised by the civil-service commission or some general administrative agency. It may very well be supplied by private agencies equipped for public-service training.

A very important consideration in the building up of a competent personnel is the determination of individual efficiency with a view to rewarding the efficient and eliminating the inefficient. In some kinds of work, such as clerical and stenographic work, it is comparatively easy to determine the quantity and quality of the employee's output, but in other kinds, as advanced scientific research, it is very difficult to appraise. However, there seems to be no way to insure just treatment to the employee and a fair return to the government except by the establishment of efficiency rating systems. Such systems should be very flexible, to begin with, and no attempt should be made to apply a single system to the entire service.

Other considerations, as advancements, promotions, removals, retirements and pensions are important, and should be regulated in accordance with a uniform employment policy. Questions relating to these phases of employment, as they may enter into budget making, will then be comparatively easy to handle.

### *What States and Cities Have Already Accomplished*

So far 10 states have established the merit system of civil service.<sup>1</sup> The systems are under the control of civil-service commissions, usually composed of three members

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<sup>1</sup> These states and the dates when their systems were adopted are as follows: New York (1883), Massachusetts (1884), Wisconsin (1905), Illinois (1905), Colorado (1907), New Jersey (1908), California (1913), Connecticut (1913), Ohio (1913), Kansas (1915), and Maryland (1920). In 1921 Connecticut abolished the system.

appointed by the governor for overlapping terms. In Maryland, however, the commission is composed of only one member appointed by the governor. Under the administrative reorganization that took place in Massachusetts in 1919 and in California in 1921 both these states have now what are practically single-headed commissions. For employment management this single-headed type of organization is to be preferred to the board type.

State civil-service commissions have concerned themselves mainly with the selection of employees and with advancements, promotions, and removals, and have given little attention to efficiency ratings and to standardization of employment. While efficiency records are required in four of the states, they are not made use of to their fullest extent. Efforts have been made in only two of the states to put into practice methods of employment standardization.

A few other states have already recognized the need for some central control over public employment, but were not inclined to accept a system of civil service since they regarded such a system as depriving the administrative heads of proper and adequate control over their subordinates upon whom they must depend for the performance of the work of the organization unit. Nebraska, under her plan of administrative reorganization recently adopted, has given the department of finance control over employment standardization. The Wyoming state board of supplies is given the power to determine the character and number of employees in all state departments and agencies, to fix, as far as practicable, uniform rates of compensation and otherwise regulate the conditions of employment.

About 180 cities, principally in New York, Ohio, and Pennsylvania, have civil-service commissions. These commissions are usually composed of three members, sometimes four or five members. Their work is practically of the same general character as that of the state civil-service commissions. Three urban counties also have civil-service commissions, namely, Cook (Chicago), Los Angeles, and Milwaukee Counties.

## II. PURCHASING METHODS AND PROCEDURE

The magnitude of the purchasing problem in states and cities is indicated by the fact that from 20 to 50 per cent of the ordinary current expenditures of these governments goes for the purchase of supplies and materials. In spite of this comparatively large expenditure for various commodities that the state and the city use, it is only recently that many of them have become interested in the subject of purchasing with a view to introducing economy there and have attempted to centralize control over buying methods and procedure by fixing responsibility for all purchasing in a single unit of the government. In the majority of states and cities, using agencies still buy their own supplies. As a result they frequently spend more than is necessary, sufficient scrutiny cannot be exercised on the part of the government, and favoritism is often shown in the award of contracts.

### *Advantages of a Centralized Purchasing System*

Numerous savings and certain advantages accrue from the operation of a centralized purchasing system. Briefly, they are as follows: (1) the concentration of purchasing power, permitting goods to be bought in large quantities at the lowest and best prices under competitive bidding

and promoting prompt delivery, inspection, and payment for goods with the minimum inconvenience to dealers; (2) the standardization of supplies, eliminating unnecessary range in kinds of goods, also unduly expensive grades; and (3) the development of an expert purchasing staff, acquainted with the details and skilled in the methods of the several phases of purchasing, inspecting, testing, and storing goods.

*Development of Centralized Purchasing in Cities and States.*

The adoption of methods providing for centralized purchasing of supplies in governmental organizations is comparatively recent. It was scarcely more than twenty years ago that cities first began to centralize their purchasing. They copied to a large extent the purchasing methods and procedure of private corporations. Chicago was the first large city to establish a purchasing department (1898), which was placed under the direction of a "business agent," empowered to control the purchasing by the city's agencies. In 1903 Philadelphia established a purchasing department with control over the purchase of all supplies for "the conduct of the business of the city." It has been since 1910 that most of the larger cities have established centralized purchasing systems. Among these may be mentioned Cleveland, Toledo, Akron, Dayton, St. Louis, Minneapolis, Los Angeles, Cincinnati, Detroit, Atlanta, New York, Baltimore, and Milwaukee. There are now about four score cities throughout the country that have centralized purchasing of most of the supplies and materials they use. Educational supplies are usually omitted from the general purchasing control.

Turning to the states,<sup>2</sup> Texas, as early as 1899, established the office of state purchasing agent for the several eleemosynary institutions of the state. This office operated continuously until 1919, when it was abolished and the exercise of its functions was given to the newly created state board of control. The next state to create the office of purchasing agent was Vermont, in 1912. The Vermont agent was given the power to purchase all supplies and materials used by the several departments and institutions of the state. New Hampshire followed in 1913 by creating the office of purchasing agent, the agent having charge of the purchasing for all departments and institutions except the state agricultural college. Although several changes have since been made in the powers of the purchasing agent, they have resulted in an increase rather than a decrease of his authority. California established a state purchasing department in 1915, which had control over the purchase of supplies for all state agencies, except the state university. In 1921 this department was abolished and its powers transferred to the division of purchases and custody under the newly created department of finance headed by the state board of control. Alabama, in 1915, constituted the secretary to the governor purchasing agent for the state. He remained so until 1919 when his purchasing functions were given to the newly created board of control and economy. In 1916 New Jersey established the office of state purchasing agent under the control of the state house commission. Ohio, in 1917, established a state purchasing department in the secretary of state's office, having authority to purchase for the state offices and

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<sup>2</sup> See A. E. Buck, "The Coming of Centralized Purchasing in State Governments," Supplement to *National Municipal Review* for February, 1920.

departments, but not for the institutions, the courts, and certain boards. In 1921 the functions of this department were transferred to the newly created department of finance and placed under the direction of the superintendent of purchases and printing. The purchasing powers were extended to apply to nearly all institutions. The Illinois civil administrative code of 1917 provided for the establishment of a division of purchases and supplies in the department of public works and buildings, which is authorized to purchase practically all of the state's supplies. The New York legislature of 1918 created a central supply committee, consisting of seven *ex officio* members. It began to operate July 1, 1919. In 1921, however, the purchasing work of this committee was transferred to the board of estimate and control. In 1919 Idaho, Michigan, Nebraska, and Wyoming provided for centralized purchasing of state supplies. Idaho placed the purchasing functions under the department of public works in its reorganized administration. Michigan created the office of state purchasing agent, but later (1921) the powers of this office were transferred to the state board of administration, consisting of seven *ex officio* members. Nebraska provided for the purchase of supplies by the department of finance. Wyoming created a state board of supplies, consisting of three *ex officio* members. In 1920 Maryland established a central purchasing bureau under the control of a purchasing agent appointed by the governor, which purchases all supplies for the various state agencies. The bureau is placed under the control of a commission of 20 *ex officio* members. In 1921 Utah created a department of finance and purchase under a director appointed by the governor. This department has control over the pur-

chases of all state agencies. Washington, in the administrative code (1921), established a division of purchase in the department of business control with a supervisor in charge appointed by the head of the department. This division buys supplies for practically all the state departments, institutions, and other agencies. Several other states, for example, Massachusetts, Virginia, and Wisconsin, have attempted to establish control over the purchase of supplies and materials for their various using agencies, but have not been able to centralize the purchasing to any considerable extent. A large number of states have placed their charitable, penal, and correctional institutions under the supervision of boards of control and these boards, in several instances, have consolidated the purchasing for their institutions.

### *Types of Organization in Purchasing Agencies*

Three general types of organization for purchasing agencies have been developed in states and cities. These are in the order of their efficiency as follows: (1) division of a department under a centralized administration; (2) independent department or bureau headed by a single responsible officer; and (3) a board of appointive or *ex officio* members with purchasing powers.

The purchasing systems of Cleveland, Toledo, Dayton, and Akron are examples among the cities of the first type. In these cities, the purchasing is under the department of finance. Among the states, the purchasing systems of Illinois, Idaho, Nebraska, Ohio, and Washington are examples of the first type. In Illinois and Idaho purchasing is under the department of public works; in Nebraska and Ohio it is under the department of finance; and in Washington it is under the department of business

control. With this type of organization responsibility for the purchasing is definitely fixed and full coöperation with other departments under the consolidated administration is assured.

Examples of the second type of purchasing organization are those of Philadelphia, Minneapolis, Chicago, Los Angeles, Detroit, and Atlanta. In these cities, the purchasing department is under the control of a single officer responsible to the mayor. The purchasing agencies of Maryland, New Hampshire, New Jersey, and Vermont belong to this type. In these states, responsibility for purchasing is largely fixed in a single officer, called the purchasing agent, who is appointed by the governor, and the purchasing department or office is practically independent of the other state departments and agencies. This seems to be the form of organization for efficient purchasing work best adapted to those states and cities that have not reorganized and consolidated their administrations. In Vermont the purchasing agent is under the supervision of the state board of control; in New Jersey he is under the state house commission; and in Maryland he is under a board of 20 *ex officio* members.

The third type of purchasing organization is illustrated by the purchasing agencies of New York, Baltimore, and Milwaukee, among the cities, and of New York, Michigan, and Wyoming, among the states. In these cities and states the authority to purchase is vested in boards composed of city or state officers serving in an *ex officio* capacity. The members of such boards are charged with numerous other duties and, therefore, have very little time to give to the purchasing work. This work, if it is to be performed, must be delegated to some

person or group of persons, in which case responsibility for the results accomplished cannot be fixed. In Alabama and Texas, which also belong to this type, the purchasing is in the hands of the state board of control. The board of control is an attempt to consolidate the administration, especially of state institutions, looking toward more efficient management. However, it at once introduces board government, which for purely administrative purposes is regarded as inefficient, unbusiness-like, and irresponsible. But putting aside these objections, a board of control, burdened with fiscal, administrative, managerial, and *quasi*-legislative duties, can hardly be expected to initiate and carry out an effective system of purchasing.

### *Methods and Procedure of Centralized Purchasing Agencies*

All state and city purchasing agencies make up schedules of supplies from requisitions or estimates furnished by the using agencies, but not all of them attempt to standardize the supplies used. The development of standard specifications for the goods to be purchased needs to be emphasized more than it has been in connection with state and city purchasing. Standardization leads to economy in buying and is of great assistance in budget making.

Purchasing agencies secure bids by employing one or all of three methods of advertising, namely, advertising in newspapers, posting schedules on bulletins, and mailing schedules directly to dealers. In most cases only sealed bids are received and must be accompanied by certified checks to insure good faith. Awards are made to the lowest responsible bidder, and usually preference

is given to local dealers or home products. Contracts are usually entered into for periods of three, six, or 12 months and bonds are required to guarantee their performance.

Practically all of the purchasing agencies order the goods to be delivered directly to the using agencies. Where goods are shipped directly to the using agencies, the important function of inspecting and testing goods is usually left to the storekeepers and stewards of the using agencies, who do not have the training or equipment for the effective performance of this work. Standard specifications avail little unless there are thorough inspections and tests of all goods received.

Several state and city purchasing agencies are very slow about making payment for goods, and hence do not take advantage of discounts. Revolving funds have been provided for several of the state purchasing agencies, thus enabling the agencies not only to make quick payments but to purchase goods out of season and store them for future consumption.

### *Centralized Purchasing and the Budget*

If properly managed, there is no doubt that a centralized purchasing system for state and city using agencies will prove more efficient and more economical than the old method of each agency buying its own supplies. This statement is borne out by the fact that none of the states or cities that have adopted a system of centralized purchasing have discontinued it, or desired at any time to return to former methods.

Aside from the question of economy, centralized purchasing has a very definite and close relation to budget making. The standard specifications used by the pur-

chasing agency should be followed closely in the preparation of the estimates. The organization units should consult with the purchasing agent regarding the probable trend of prices for the coming year or two years before making up their estimates. The budget-making authority and its staff should make use of the purchasing office data relative to the trend of prices, expenditures for various classes of goods, and the prospective needs of the several state agencies in the preparation of the budget.

### III. ACCOUNTING METHODS AND CONTROL

The accounting methods of state governments, as a rule, are considerably less advanced than those of private corporations and municipalities. In fact, in some states the now almost primitive methods of half a century ago are still being used. Little or no attention is given to the classification of expenditures and revenues, hence information that can be easily analyzed for budget-making purposes is not developed. In most states the handling of state finances is assigned to a number of different officers and boards acting more or less independently of each other. The only fiscal officers uniformly found in the states are the treasurer and the auditor, or comptroller, provided for by the constitution, selected usually by the people, and frequently having no special training or qualifications to fit them for the performance of their duties. In a number of the states wherein the revenues are collected mainly by local officers and transmitted to the state treasury, there is no effective state administrative supervision over the accounts of these local officers. There are still states in which revenues, such as fees, are collected by state

officers and are not turned into the state treasury, no general account being taken of them or of the expenditures made from such revenues. Budgetary procedure, to be effective, calls for complete accounting records and control over all the revenues and expenditures of the government.

The problem of establishing proper accounting procedure for handling the expenditures and revenues of state and city governments divides itself into two phases: one is the administrative accounting and the other is the independent audit. The two are not to be confused; the accounting must be done by those who are held accountable for the administration or the carrying out of the budget. It involves much more than simply keeping within or recording charges against appropriations. There are several records, such as cost accounts and operation accounts, which the administration needs for purposes of information and which the responsible officer must have as a means of keeping in touch with what is being done, but which have no relation to the question of "authority" to spend. The independent audit involves a careful review of all administrative acts by a non-administrative agency.

### *Administrative Accounting*

In several states and not a few cities the administrative accounting is done by the elective auditor, or comptroller. For example, in New York the comptroller, whose chief business it is to audit the expenditures and revenues of the state, keeps practically all of the accounts of the administration. Thus the officer who is intended to act as an independent check upon the administration keeps the administration's books and records

and in turn audits them as the means of control over the administration.

In the reorganization of the Illinois administration the question of administrative accounting, record keeping, and control over expenditures was vested in the newly created department of finance (see Chapter II). This was the first time that a department had been developed in connection with state governmental organization to act as a specialized central office of accounting and executive control. This department has prescribed and installed a uniform system of bookkeeping, accounting, and reporting in the state departments. Standard account titles have been set up that are used not only as a means of controlling expenditures but as a basis for budget estimates and appropriations as well (see Chapter IV). After the appropriations have been made and before the beginning of the fiscal year to which they apply, the department of finance requires each division of the various departments to allocate to the 12 months of the fiscal year its appropriations for operating expenses covering seven of the standard accounts, namely, salaries and wages, office expense, traveling expense, operating supplies and expense, working capital, school supplies, and repairs. Controlling accounts are then set up on this basis in the office of the director of finance. Appropriations for what are termed the capital outlay accounts, that is, for equipment, buildings, and land, are allocated not to months of the fiscal year but to projects to be undertaken. Monthly reports are required from each departmental division showing the expenditures made from each of the 10 standard accounts during the month, the bills that have not been paid, the contracts and orders outstanding, the total encumbrance, and the free

available balance of appropriation. A controlling ledger is kept in the department of finance which shows the percentage of expenditures of the seven operating accounts compared with the allotments and with the appropriations under each standard account for each departmental division. This controlling ledger, together with the monthly reports, shows the exact financial condition of each division of government. All vouchers and bills must pass through the department of finance for audit and approval by the administrative auditor before going to the auditor of public accounts for payment. This constitutes the administration's check on the expenditures that are made by the departments. To supply the administration with information as to how efficiently the work of the government is conducted, the department of finance requires cost accounts to be kept by the institutions and departments.

Nebraska, Ohio, Utah, and Missouri (subject to approval by referendum in 1922) have practically copied the Illinois department of finance. In these states the departments of finance exercise almost the same powers with reference to accounting control as does that of Illinois (see Chapter II).

### *Independent Audit*

Forty-two states have officers designated as controllers or auditors, who are elected by the people in all states except three, namely, New Jersey, Tennessee, and Virginia, where they are chosen by the legislature. In the remaining six states the auditing is performed either by some officer, as the secretary of state acting in an *ex officio* capacity, or by an officer or examiner appointed by the governor. In a majority of the cities the auditor,

or comptroller, is elected by the people or appointed by the legislative body.

The first requirement for an independent audit is that the officer performing this function shall be free of the administration. That is, he should be either appointed by the legislative body or elected by the people. From the standpoint of proper control under the executive type of budget system appointment of this officer by the legislative body is preferable to his election by the people. For where the executive proposes the budget plan and the legislature authorizes the plan to be carried out, the legislature should have a representative to see that the plan is carried out by the executive in accordance with its authorizations, to check the collection and expenditure of money, and to act as a critic of the administration's methods.

The second requirement for an independent audit is that the officer performing this function shall not have any other duties than those strictly belonging to the office. In several states the comptroller, or auditor, has been required to accrue revenue, to collect such revenues, and to audit and verify his own accruals and collections. Oftentimes this officer serves in an *ex officio* capacity on various administrative boards. Yet he is expected to check up and enforce administrative responsibility while himself laboring under the administrative duties, the effect of which is to destroy the disinterestedness of his audit. Obviously, the officer who performs the functions of the independent audit should not serve in the dual capacity both of auditor and administrative officer. The auditing functions should be completely separated from the functions of planning and spending if there is to be effective check and criticism.

In the smaller states and cities a periodic audit ought to be sufficient. Then it would not be necessary to incur the expenses of a permanent auditing office, since the work could be done once or twice a year by a firm of accountants hired for that purpose by the legislative body. In this case all controlling accounts would be kept by the chief financial officer of the administration.

## CHAPTER XII

### ADMINISTRATIVE ORGANIZATION AND THE BUDGET

The success of the budget system depends largely upon good administration, a very important factor of which is proper administrative organization or machinery. It has been said that "able men can administer bad machinery to secure good results, whereas inefficient men will achieve poor results with the best of machinery." Certainly, in the conduct of government, the trained individual is a very important element, but not everything. The governmental machine is also an important element in doing work. It is a waste of public money to set a body of trained specialists operating a governmental organization that is in a class with the treadmill. The ability of experienced administrators may be spent in vain on an obsolete and ramshackle administrative machine. Furthermore, such a machine does not attract able men to operate it; they prefer to stay in private business rather than fritter away their time and energy trying to get the maximum service at the minimum running cost out of a machine that Topsy-like, "jist growed," or was not built for efficiency.

#### *How the Present State Administrative Organization Developed*

In the early days of our state governments the administrative officers, including the governor, were appointed

by the legislature. This was due largely to the popular distrust of the executive in those days. Later the people began to distrust the legislature, and then the governor and the administrative officers were chosen by the ballot. Shortly after the middle of the past century social and economic changes began to multiply the number of state administrative officers, but the people continued to elect them on the theory that popular control could best be secured by establishing as many elective offices as possible. The state constitutions that were written or revised directly after the Civil War made provisions for a number of administrative officers and provided, in most cases, that they be chosen by the people. These provisions were copied by subsequent constitutions and are in force in all the states at the present time. During the last two decades the administrative activities of state governments have rapidly expanded and the legislatures have created numerous agencies, offices, boards, and commissions, to perform these activities. No studied plan of administrative organization was followed in any state. In most cases, every time a new activity was established, a new agency was created to carry it on. There was no consistent scheme by which the officers or members of these agencies were chosen; some were elected, some appointed by the governor, some chosen by the legislature, some appointed by the governor and the senate, some appointed by other officials, and some served *ex officio*. No attempt was made to departmentalize the work of the government. The result has been the development of a cumbersome and ill-adjusted governmental machine, which prevents the governor from establishing effective control over even the appointive officials.

*Condition of Administrative Organization in Most States*

The administrative organization of Virginia may be taken as a typical example of the condition that exists in practically all the states that have not recently taken steps to reorganize their administrations. In Virginia the governor is elected by the people for a term of four years. The lieutenant-governor, the secretary of state, the treasurer, the attorney general, the superintendent of public instruction, and the commissioner of agriculture are also elected for terms equal to that of the governor. Since they derive their authority from the same source, the people, they are practically coördinate in power with the governor. The auditor of public accounts is elected by a joint vote of the two houses of the legislature for a term of four years. A commissioner of state hospitals is appointed by the governor with the approval of the senate. Then there is the state board of education, composed of the governor, the attorney general, the superintendent of public instruction, and three members selected by the senate every four years; the board of agriculture and immigration, consisting of one member from each Congressional district appointed by the governor with the senate's approval for four years, and the president of the Virginia Polytechnic Institute *ex officio*; the state corporation commission, composed of three members elected by the people for overlapping terms of six years each; the board of directors of the state penitentiary, etc., consisting of five members appointed by the governor with the senate's approval for overlapping terms of five years each; a board of directors for *each* state hospital made up of three members appointed by the governor with the approval of the senate for over-

lapping terms of six years; and a general board of directors composed of all the hospital boards of directors, which appoints a superintendent for each hospital. All of the foregoing officers and boards are provided for in the state constitution. Besides these there are almost one hundred statutory offices, boards, commissions, departments, bureaus, and other agencies. The controlling officers of these agencies are in only a few cases wholly responsible to the governor either for their appointment to office or for the conduct of their work. The governor exercises only a very limited power of removal over administrative officers. Not only are the administrative agencies widely scattered, but the main functions of government are not coördinated. There is much duplication of effort and overlapping of work.

Virginia and a number of states with the same sort of chaotic administrative organization have adopted the executive type of budget system. Such organization, or rather lack of organization, presents serious difficulties in carrying out the principle of the executive budget, that is, the idea of making the governor fully responsible for preparing the budget plan and likewise for executing that plan. In attempting to overcome these difficulties some states, of which Maryland is a good example, have provided that the governor shall have the power to compel all spending agencies to furnish him with such information as he may need in preparing the budget, and that the legislature shall not have the power to increase the governor's budget. Any provisions that the legislature wishes to make for expenditures not provided for in the governor's budget must be made under a special procedure after having disposed of the executive's financial program. But a very essential part of budgetary pro-

cedure is systematic control over the expenditures after they have been authorized. These provisions, however, do not place the governor in any better position than before for effectively managing the administration in carrying out his budget plan. Because of numerous independent administrative officers and agencies, the governor cannot exercise adequate control over the administration. For this reason, public officials are beginning to realize that the main problem is one of governmental reorganization if the budget system, particularly the executive type of budget system, is to work effectively.

### *Recent Movement for Reorganization of Administration*

The recent movement for the reorganization of state administration has been in two directions. One is toward a decentralized administration; the work of the administration is departmentalized, but each department is under the control of an independent board or commission and is directly administered by a trained secretary and staff. The other is toward a centralized administration; the various activities of the administration are departmentalized and integrated by making the heads of the departments appointive by the governor and responsible to him. To do the work of administration the first plan provides staffs of specialists under boards of laymen, the members of which boards are appointed for long and overlapping terms, while the second plan provides administrators selected by and under the control of a responsible chief executive.

### *The Plan of Decentralized Administration*

Wisconsin furnishes the best example of decentralized administration. In fact, New Jersey is the only other

state that has attempted to any extent administrative reorganization in the direction of decentralization, and as yet a consistent plan has not been developed in this state. In Wisconsin the activities of the administration are fairly well departmentalized by bringing together and combining the functions of small agencies doing similar kinds of work. The consolidated departments, or administrative units, are placed under the control of boards or commissions, the members of which are appointed for long and overlapping terms. These boards or commissions employ trained secretaries and expert staff assistants to do the actual work of administration. In this way the administrative units are independent of each other, and there is no one responsible for the administration of the state government as a whole. Under this arrangement the board or commission acts largely as an agent of contact between the expert staff and the public. This method of conducting the administrative work, it is claimed, insures continuity of policy and removes the administration from the influence of bad politics, and, it might be added, that it likewise removes it from the influence of good politics. The actual heads of the administration are securely removed from popular control. Besides, they are protected from executive and legislative wrath by a system of continuing appropriations, which has been discussed in Chapter IX. This seems to be a very good arrangement for securing efficient results if the people do not care for centralized and responsible leadership in government and are ready and willing to trust the work of administration to an aristocracy of the "intelligentsia" over which they have little or no control.

Under such an administrative organization the budget-making authority must necessarily be a board. The Wis-

consin state board of public affairs, which performs this function, is a sort of super-board, consisting of both administrative and legislative officers.

### *The Plan of Centralized Administration*

Centralized administration aims at bringing about simple, direct, responsible government. It proposes the reorganization of the several offices, boards, commissions, and agencies concerned with the administration of the state's affairs into a few coördinate departments with heads appointed by the governor and responsible to him. In this way the entire administration is integrated, useless and obsolete offices and agencies are abolished, and closely related functions are placed under the management of a single department. Responsibility for the administration is centered in the governor, who is the chief executive officer elected by the people of the whole state.

During the last two decades our city governments have been reorganizing in the direction of centralized administration, and recently the city-manager plan has given considerable impetus to this movement. Up to the present time above four hundred cities have adopted the commission form of government, the essential feature of which, from the standpoint of administrative organization, is the grouping of all offices and agencies of the city under a few departments, usually five, each under the control of a single commissioner elected by the people. Out of the commission form of city government has evolved the city-manager plan under which the commission becomes mainly a legislative body and chooses the manager, who exercises supervisory control over the whole city administration organized into a few departments. More than two hundred and fifty cities have al-

ready adopted the city-manager form of government. Recently a large number of cities have adopted the centralized-mayor form of government in which the city administration is organized under the mayor similar to the organization under the city manager, but differing from the manager form of government mainly in that the mayor is elected by the people rather than chosen by the city council.

The movement for centralization of state administration actually started in Oregon about 10 years ago, when an unsuccessful attempt was made to reorganize the state government. Two or three years later studies were conducted in both Minnesota and Iowa, which proposed to arrange the administrative activities under a few departments with heads appointed by and responsible to the governor. These plans failed to receive any serious consideration. The New York constitutional convention of 1915 proposed a plan for centralizing the administration of the state, but it was lost in the defeat of the proposed constitution. About this time a committee made a thorough study of the Illinois administration and recommended that it be departmentalized and centralized under the governor, as far as could be done without constitutional change. In 1917 a plan for reorganizing and centralizing the statutory administrative agencies was adopted by the Illinois legislature. This was the first plan of its kind to be adopted in this country, and because of its simple arrangement and consistent scheme of organization it is about the best example of centralized state administration. In 1919 two other states, Idaho and Nebraska, practically copied the Illinois plan. In 1918 Massachusetts provided by constitutional amendment for the consolidation of its numerous administra-

tive offices and agencies into 20 departments. The reorganization was effected by statute the following year. The plan adopted is not so simple and consistent as the Illinois plan, and executive responsibility is not developed to the same degree that it is in Illinois. In 1921 Ohio and Washington adopted statutory reorganization plans similar to that of Illinois. California also enacted an administrative consolidation plan in a series of nine bills, which does not provide for as thorough a reorganization as in the case of the other two states. The movement is spreading rapidly, as indicated by the fact that very recently plans for administrative reorganization and centralization have been proposed in Arizona, Connecticut, Delaware, Michigan, Missouri, New Mexico, New York, Oregon, and Tennessee, and studies of the administration are under way in Arkansas, Connecticut, Maryland, and Texas.<sup>1</sup>

A brief description of the Illinois plan, as perhaps our best example up to the present time of centralized state administration, should be of interest in this connection.<sup>2</sup> The Illinois civil administrative code abolished more than 100 statutory administrative offices, departments, boards, commissions, and agencies and consolidated their functions under nine departments, namely, finance, agriculture, labor, mines and minerals, public works and buildings, public welfare, public health, trade and commerce, and registration and education. The reorganization was made on the basis of general functions, and the number

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<sup>1</sup> See F. A. Cleveland and A. E. Buck, *The Budget and Responsible Government*, New York, 1920, Part II. Also see A. E. Buck, "Administrative Consolidation in State Governments," Supplement to *National Municipal Review* for November, 1919.

<sup>2</sup> See J. M. Matthews, "Administrative Reorganization in Illinois," Supplement to *National Municipal Review* for November, 1920. Tells of the operation of the reorganized Illinois government.

of departments was reduced to the minimum consistent with the broad lines of functional grouping. Each department has a single head, called a director, appointed by the governor with the approval of the senate for a term equal to that of the governor (four years). This recognizes an individual as preferable to a board for purely administrative work; responsibility is thus fixed for the work of each department. General administrative responsibility is centered in the governor since his subordinate officers are not given a longer term of office than himself. The approval of the governor's appointments by the senate may be objected to on the ground that it tends to divide responsibility, but this objection is met by the argument that it insures better selection of department heads by the governor. The directors receive annual salaries varying from \$5,000 to \$7,000. Some of them are required to have special technical training or professional qualifications; and the method of their selection tends to insure the choice of trained men. There are more than 40 subordinate officers with salaries ranging from \$3,000 to \$5,000, who are appointed in the same manner as the directors and are placed under the control of the heads of the departments. Perhaps it would be better if the subordinate officers were chosen by the directors, as is provided in the Ohio plan. The department employees are appointed subject to the civil-service regulations of the state.

The Illinois plan recognizes the need for boards to discharge *quasi*-legislative or *quasi*-judicial functions and to act in an advisory capacity. Wherever *quasi*-legislative or *quasi*-judicial functions are included in the work of the nine departments, boards have been provided to perform such functions. These boards are attached to such de-

partments as labor, mines and minerals, and trade and commerce. The members of these boards are appointed by the governor with the approval of the senate and most of them receive salaries, the maximum annual salary being \$7,000. While these boards are component parts of the departments to which they belong, they nevertheless act as independent entities in the performance of their duties. In determining questions of policy advisory or non-executive boards have been provided to advise with the department heads and the governor. These boards are associated with such departments as agriculture, public works, public welfare, public health, and education and registration. The members of these boards are appointed in the same manner as the department heads and receive no compensation. They are usually required to have had some experience in the general work of the departments to which they are attached.

The net result in Illinois, Idaho, Nebraska, Ohio, and Washington is that the administration, with the exception of certain constitutional offices and a few minor agencies, is now centralized under the governor. But it is impossible to establish fully the principle of executive responsibility so long as there are certain independent elective administrative officers provided for by the constitution. Complete centralization demands constitutional revision. The Illinois, Idaho, Nebraska, and Ohio plans are, however, in the direction of making possible the effective operation of an executive budget system. Under these plans the governor prepares the budget for the legislature with the aid of a permanent staff agency. After the budget has been authorized by the legislature, the governor has the power through the general control vested in the department of finance and by reason of the

greater authority he exercises over the administration because of centralization to enforce, in a large measure, the proper execution of the budget.

*Further Change Necessary to Bring about Responsible State Government*

Municipal government, which for many years exhibited the same administrative disorganization that still characterizes state government, has been to a large extent effectively reorganized and simplified under the centralized-mayor, the city-manager and the commission forms of government. In the centralized-mayor and the city-manager forms, executive responsibility is definitely fixed and executive control is fully established. In state government, as has been indicated in the preceding paragraph, considerable remains to be done in order to develop a responsible administrative organization. Some rather drastic changes must be made in state constitutions.

Not long ago, the National Municipal League appointed a committee on state government to draft a model state constitution that would set up a responsible executive organization and simplify generally the machinery of state government. After a number of committee conferences and considerable general discussion at two of the League's annual meetings, provisions have been drafted and tentatively adopted covering the essentials of legislative and executive organization and the budget.<sup>3</sup> These provisions are briefly summarized in the following paragraph.

A single-house legislature is constituted, the members

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<sup>3</sup> See Appendix II for parts of the model state constitution dealing with the legislature the executive, and the budget.

of which are to be chosen by proportional representation for two-year terms. The legislature is to hold regular sessions each year or at least every two years. A legislative council, consisting of the governor and seven members of the legislature chosen by that body, is to meet continuously. It is to gather information about the government, consider proposed legislation, draft bills for submission to the legislature, and supplement existing legislation by means of ordinances. An auditor is to be appointed by the legislature. Executive power is to be vested solely in the governor, who is to be elected by the people for a term of four years. There is to be no lieutenant-governor, or other elective administrative officers. The administration is to be organized into a few departments the heads of which are to be appointed and removed at will by the governor. The governor and the department heads are to have seats in the legislature with the power to introduce bills and to take part in discussions, but not to vote. The governor is to submit to each regular session of the legislature a budget and at the same time introduce all bills necessary to carry out the budget plan. Open sessions on the budget are to be held by the legislature. The governor is to have the power to veto bills or to disapprove or reduce items in appropriations, subject to a two-thirds vote of the legislature. In order to avoid deadlocks between the governor and the legislature, there is to be a referendum to the people on bills vetoed by the governor, and (by order of the governor) on bills that failed to pass the legislature, if at least one-third of the members voted in their favor.



## APPENDIX I

### CITATIONS OF BUDGET LAWS AND AMENDMENTS OF STATES

1. Alabama, L. 1919, nos. 31 and 130.
2. Arizona, L. 1919, c. 61.
3. Arkansas, L. 1913, c. 44.
4. California, L. 1911, c. 349 amended by L. 1921, S. B. no. 876.
5. Colorado, L. 1919, c. 12.
6. Connecticut, L. 1915, c. 302 amended by L. 1919, c. 290 and c. 291.
7. Delaware, L. 1921, c. 26.
8. Florida, L. 1921, H. B. no. 69.
9. Georgia, L. 1918, no. 327, p. 155.
10. Idaho, L. 1919, c. 135 amended L. 1921, c. 69.
11. Illinois, L. 1917, civil admin. code, p. 2.
12. Indiana, L. 1921, c. 149.
13. Iowa, L. 1915, code secs. 191a-191b
14. Kansas, L. 1917, c. 312.
15. Kentucky, L. 1918, c. 12.
16. Louisiana, L. 1916, no. 140.
17. Maine, L. 1919, c. 102.
18. Maryland, Amend. Art. III, sec. 52 of Constitution, 1916.
19. Massachusetts, Amend, no. 16, Const., 1918 supplemented by L. 1918, c. 244 and L. 1919, c. 52.
20. Michigan, L. 1919, no. 98 amended by L. 1921, no. 2.
21. Minnesota, L. 1915, c. 356.
22. Mississippi, L. 1918, c. 225.
23. Missouri, L. 1921, S. B., no. 434 (subject to referendum, Nov. 1922).
24. Montana, L. 1919, c. 205 amended by L. 1921, c. 163.
25. Nebraska, L. 1921, c. 210, repealing L. 1919, c. 190, Title II, art. 2 and L. 1915, c. 229.
26. Nevada, L. 1921, c. 60, repealing L. 1919, c. 45.
27. New Hampshire, L. 1919, c. 153.
28. New Jersey, L. 1916, c. 15.
29. New Mexico, L. 1919, c. 174, repealing L. 1917, c. 81 and c. 114.
30. New York, L. 1916, c. 130 (Leg. Law, secs. 26-32) amended by L. 1921, c. 336.

31. North Carolina, L. 1919, c. 38 amended by Ex. Sess. L. 1920, c. 38 and again amended by L. 1921, c. 196.
32. North Dakota, L. 1915, c. 61.
33. Ohio, L. 1921, admin. code, H. B. no. 294, repealing L. 1913, S. B. no. 127.
34. Oklahoma, L. 1919, c. 142.
35. Oregon, L. 1921, c. 22, repealing L. 1913, c. 284.
36. Pennsylvania (no provisions).
37. Rhode Island (no provisions).
38. South Carolina, L. 1919, no. 130.
39. South Dakota, L. 1917, c. 354 amended by L. 1919, c. 319 and again by L. 1921, c. 374.
40. Tennessee, L. 1917, c. 139.
41. Texas, L. 1919, c. 167.
42. Utah, L. 1917, c. 15 amended by L. 1921, c. 127.
43. Vermont, L. 1915, no. 26 amended by L. 1917, no. 32 and L. 1919, no. 22.
44. Virginia, L. 1918, c. 64.
45. Washington, L. 1915, c. 126 amended by L. 1921, c. 7, admin. code, sec. 6.
46. West Virginia, Amend. Art. VI, sec. 51 of Const., 1918.
47. Wisconsin, L. 1913, c. 728 amended by L. 1915, c. 606, and L. 1917, c. 2 and c. 300.
48. Wyoming, L. 1919, c. 10.

## APPENDIX II

### SECTIONS OF MODEL STATE CONSTITUTION OF THE NATIONAL MUNICIPAL LEAGUE RELATING TO THE LEGISLATURE, THE EXECUTIVE, AND THE BUDGET <sup>1</sup>

#### THE LEGISLATURE

SECTION 1. There shall be a Legislature of        members who shall be chosen for a term of two years by the system of proportional representation with the single transferable vote. For the purpose of electing members of the Legislature the state shall be divided into districts composed of contiguous and compact territory from which members shall be chosen in proportion to the population thereof, but no district shall be assigned less than five members.

SECTION 2. Until otherwise provided by law, members of the Legislature shall be elected from the following districts: The first district shall consist of the counties of        and        and shall be entitled to        members. (The description of all the districts from which the first Legislature will be elected should be inserted in similar language.) At its first session following each decennial Federal census the Legislature shall redistrict the state and reapportion the members in accordance with the provisions of Section 1 of this constitution.

SECTION 3. The election of members of the Legislature shall be held on the Tuesday next following the first Monday of November in the year one thousand nine hundred and twenty-two and every second year thereafter.

SECTION 4. Any elector of the state shall be eligible to the Legislature.

SECTION 5. The term of members of the Legislature shall begin on the first day of December next following their election. Whenever a vacancy shall occur in the Legislature, the governor shall issue a writ of appointment for the unexpired term. Such vacancy shall thereupon be filled by a majority vote of the remaining members of the district in which the vacancy occurs. If after thirty days following the issuance of the writ of appoint-

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<sup>1</sup> From the tentative report of the Committee on State Government of the National Municipal League. This Committee consists of Charles A. Beard, Richard S. Childs, W. F. Dodd, H. W. Dodds, John A. Fairlie, A. R. Hatton, A. N. Holcombe, Raymond V. Ingersoll, Isadore Loeb, Clinton Rogers Woodruff, Linsay Rodgers, A. E. Sheldon, and A. E. Buck.

ment the vacancy remains unfilled, the governor shall appoint some eligible person for the unexpired term.

SECTION 6. A regular session of the Legislature shall be held annually (or biennially) beginning on the first Monday in February. Special sessions may be called by the governor or by a majority vote of the members of the Legislative Council.

SECTION 7. The Legislature shall be judge of the election, returns, and qualifications of its members, but may by law vest the trial and determination of contested elections of members in the courts. It shall choose its presiding officer and determine its rules of procedure, may compel the attendance of absent members, punish its members for disorderly conduct and, with the concurrence of two-thirds of all the members, expel a member; but no member shall be expelled a second time for the same offense. The Legislature shall have power to compel the attendance and testimony of witnesses and the production of books and papers either before the Legislature as a whole or before any committee thereof.

SECTION 7a. For any speech or debate in the Legislature, the members shall not be questioned in any other place.

SECTION 7b. The Legislature shall pass no local or special act in any case where a general act can be made applicable; and whether a general act can be made applicable shall be a judicial question. No local or special act shall take effect until approved by a majority of the electors voting thereon in the district to be affected, except acts repealing local or special acts in effect before the adoption of this constitution and receiving a two thirds vote of all members of the Legislature on the question of their repeal.

SECTION 8. A majority of all the members of the Legislature shall constitute a quorum to do business but a smaller number may adjourn from day to day and compel the attendance of absent members. The Legislature shall keep a journal of its proceedings which shall be published from day to day. A vote by yeas and nays on any question shall, at the desire of one-fifth of those present, be taken and entered on the journal.

SECTION 9. A secretary of the Legislature shall be appointed in the manner hereinafter provided. The secretary shall appoint and supervise all employees of the Legislature and shall have charge of all service incidental to the work of legislation. While the Legislature is in session the secretary shall be under the control of that body.

SECTION 10. No law shall be passed except by bill. All bills shall be confined to one subject, which subject shall be clearly expressed in the title. Bills for appropriations shall be confined to appropriations.

SECTION 11. No bill shall become a law until it has been read on three different days, has been printed and upon the desks of the members in final form at least three legislative days prior to final passage, and has received the assent of a majority of all the members. Upon final passage the vote shall be by yeas and nays entered on the journal; provided, that the employment of mechanical devices to record the votes of members shall not be contrary to this provision.

SECTION 12. Every bill which shall have passed the Legislature shall be presented to the Governor; if he approve, he shall sign it, but if not, he shall return it with his objections to the Legislature. Any bill so returned by the Governor shall be reconsidered by the Legislature and if, upon reconsideration, two-thirds of all the members shall agree to pass the bill, it shall become a law. In all such cases the vote of the Legislature shall be by yeas and nays and entered on the journal. If any bill shall not be returned by the Governor within ten days after it shall have been presented to him, it shall be a law in like manner as if he had signed it, but if the Legislature shall by adjournment prevent the return of a bill within ten days, any such bill shall become a law unless filed by the Governor together with his objections in the office of the secretary of the Legislature within thirty days after the adjournment of the Legislature. Any bill so filed shall be reconsidered by the next session of the Legislature as though returned while the Legislature was in session.

SECTION 13. Any bill failing of passage by the Legislature may be submitted to referendum by order of the Governor if at least one-third of all the members shall have been recorded as voting in favor of the bill when it was upon final passage. Any bill which, having passed the Legislature, is returned thereto by the Governor with objections and, upon reconsideration is not approved by a two-thirds vote of all the members but is approved by at least a majority thereof, may be submitted to referendum by a majority vote of all the members of the Legislature. Bills submitted to referendum by order of the Governor or Legislature shall be voted on at the next succeeding general election unless the Legislature shall provide for their submission at an earlier date.

SECTION 13a. The Legislature shall, by a majority vote of all its members, appoint an auditor who shall serve during the pleasure of the Legislature. It shall be the duty of the auditor to conduct a continuous audit of all accounts kept by or for the various departments and offices of the state government, and to report thereon to the Legislative Council quarterly and at the end of each fiscal year. He shall also make such additional reports to the Legislature and Legislative Council, and conduct

such investigation of the financial affairs of the state, or of any department or office thereof, as either of such bodies may require.

### THE LEGISLATIVE COUNCIL

SECTION 14. There shall be a Legislative Council consisting of the Governor and seven members chosen by and from the Legislature. Members of the Legislative Council shall be chosen by the Legislature at its first session after the adoption of this constitution and at each subsequent session following a general election. Members of the Legislative Council chosen by the Legislature shall be elected by the systems of proportional representation with the single transferable vote, and when elected shall continue in office until their successors are chosen and have qualified. The Legislature, by a majority vote of its members, may dissolve the Legislative Council at any time and proceed to the election of a successor thereto.

SECTION 15. The Legislative Council shall meet as often as may be necessary to perform its duties. It shall choose one of its members as chairman and shall adopt its own rules of procedure, except as such rules may be established by law. The Legislative Council shall appoint the secretary of the Legislature who shall be *ex officio* secretary of the Council.

SECTION 16. It shall be the duty of the Legislative Council to collect information concerning the government and general welfare of the state and to report thereon to the Legislature. Measures for proposed legislation may be submitted to it at any time and shall be considered and reported to the Legislature with its recommendations thereon. The Legislative Council may also prepare such legislation and make such recommendations thereon to the Legislature in the form of bills or otherwise as in its opinion the welfare of the state may require. Other powers and duties may be assigned to the Legislative Council by law. The delegation of authority to supplement existing legislation by means of ordinances shall not be deemed a delegation of legislative power.

SECTION 17. Members of the Legislative Council shall receive such compensation, additional to their compensation as members of the Legislature, as may be provided by law.

### THE EXECUTIVE

SECTION 18. The executive power of the state shall be vested in a Governor who shall hold his office for a term of four years from the first Monday in December next following his election.

Any elector of the state shall be eligible to the office of Governor.

SECTION 19. In case of death, impeachment, or other disability of the Governor, the powers and duties of the office shall devolve upon the presiding officer of the Legislature for the remainder of the term or until the disability be removed.

SECTION 20. There shall be such executive departments as may be established by law. The heads of all executive departments shall be appointed, and may be removed, by the Governor. All other officers and employees in the executive service of the state shall be appointed by the Governor or by the heads of executive departments as may be provided by law.

SECTION 21. The Governor and heads of executive departments shall be entitled to seats in the Legislature, may introduce bills therein and take part in the discussion of measures, but shall have no vote.

SECTION 21a. The Legislature may, upon due notice given and opportunity for defense, remove or retire the Governor from office upon the concurrence of two-thirds of all the members elected to the Legislature.

### THE BUDGET

SECTION 22. Within one week after the organization of the Legislature at each regular session the Governor shall submit to the Legislature a budget setting forth a complete plan of proposed expenditures and anticipated income of all departments, offices, and agencies of the state for the next ensuing fiscal year (or biennium). For the preparation of the budget the various departments, offices, and agencies shall furnish the Governor such information in such form as he may require. At the time of submitting the budget to the Legislature the Governor shall introduce therein a general appropriation bill containing all the proposed expenditures set forth in the budget. At the same time he shall introduce in the Legislature a bill or bills covering all recommendations in the budget for additional revenues or borrowings by which the proposed expenditures are to be met.

No appropriation shall be passed until the general appropriation bill as introduced by the Governor and amended by the Legislature shall have been enacted, unless the Governor shall recommend the passage of an emergency appropriation or appropriations which shall continue in force only until the general appropriation bill shall become effective. The Legislature shall provide for one or more public hearings on the budget either before a committee or before the entire assembly in committee of the whole. When requested by not less than one-fifth of the members of the Legislature, it shall be the duty of the Governor

to appear before the Legislature or to appear in person or by a designated representative before a committee thereof to answer any inquiries with respect to the budget.

The Legislature, by appropriate legislation, shall make this section effective.

SECTION 23. The Legislature shall make no appropriation for any fiscal period in excess of the expendable income for that period. The Governor may disapprove or reduce items in appropriation bills and the procedure in such cases shall be the same as in the case of the disapproval of an entire bill by the Governor.

SECTION 24. No money shall be drawn from the treasury except in accordance with appropriations made by law, nor shall any obligation for the payment of money be incurred except as authorized by law. No appropriation shall confer authority to incur an obligation after the termination of the fiscal period to which it relates.

## APPENDIX III

### THE BUDGET IN THE MODEL STATE CONSTITUTION <sup>1</sup>

The need for a budget system in controlling the finances of state governments is now admitted by practically every one. In fact, forty-six states have already provided by statute or by constitutional amendment for the establishment of such a system. There is still, however, considerable difference of opinion upon the method by which a budget system should be established. The main questions at issue are two—the second being a corollary of the first. Should the state budget system be established by writing some provisions in the constitution? If so, what budgetary provisions should be written in the constitution?

So far, three states (Maryland, Massachusetts, and West Virginia) have written budget provisions in their constitutions. With most of the other states the budget system has been "on trial." Although a number of the states have amended their budget laws from time to time, or have passed new budget laws repealing the old laws, the experience of these states without exception has been such that not one has thought of abandoning the budget system. On the contrary, there is a growing opinion among the states that it has vindicated its usefulness to such an extent that it should be made a permanent procedure for state governments. In order to give it this permanency, it should be written in the state constitution. When this is done, the system will not be susceptible to every political wind that blows; consequently, it will be much more effective as a method of conducting the state's business. The National Municipal League's committee was unanimously of the opinion that certain general provisions for a budget system should be included in the model state constitution.

When it came to drafting the budget provisions, the members of the committee agreed that only the bare essentials of budgetary procedure should be incorporated in the model constitution and that all details should be left to a supporting statute. As a basis for determining these essentials the committee started with the principle that financial planning for the going concern of government is initially a function of the executive; therefore,

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<sup>1</sup> Reprint of an article by A. E. Buck in the *National Municipal Review* for July, 1921.

the governor should be responsible for the preparation of the budget. But it was agreed that the application of this principle should not operate to curtail legislative power or control over the appropriation of public funds.

#### GOVERNOR TO DIRECT THE PREPARATION OF THE BUDGET

The budget provisions of the model constitution presuppose a compact administration composed of about a dozen departments, the heads of which are directly responsible to the governor.<sup>2</sup> Such an organization enables the governor to prepare a comprehensive budget plan and, what is even more important, it places him in a position where he can really carry out the plan when the legislature has authorized the appropriations.

It is assumed that the new governor will take office about two months before the opening of the regular session of the legislature. In fact, preceding sections of the model constitution provide that the governor will be inaugurated on the first Monday in December and that the legislature will meet on the first Monday in February. This provision remedies the situation existing in a number of states where the outgoing governor prepares the budget for the incoming governor and his administration. It allows sufficient time for the new governor to get the budget in shape for presentation to the legislature at the beginning of the session or not later than one week after the session begins. There is also an advantage in requiring the budget to be submitted to the legislature early in the session; it gives plenty of time for committee consideration and review by the members themselves.

It is presumed that the governor will have a permanent budget staff agency either in a department of finance or attached to his own office, which will work under his direction in the preparation of the budget and will be engaged in gathering budget information throughout the year. Such a staff seems quite essential to successful budget-making, since budget needs are determined largely on the basis of past experience.

For the preparation of the budget the various departments, offices, and agencies are required to furnish the governor such information in such form as he may require. This provision applies to the courts, the legislature, and all agencies of whatever character requesting or receiving financial support from the state. It implies that the governor through his staff agency is to provide a budget classification and standard forms upon which the estimates are to be submitted. The time for sub-

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<sup>2</sup> See J. A. Fairlie, "The Executive in the Model Constitution," *National Municipal Review* for April, 1921, pp. 226-232.

mitting the estimates and definite responsibility for their preparation may be fixed by statute.

#### FORM OF BUDGET DOCUMENT NOT SPECIFIED

Nothing is specified as to the form and contents of the budget beyond the general statement that the document must set forth "a complete plan of proposed expenditures and anticipated income" for the next ensuing fiscal year. As yet the budget movement in this country is not old enough to have developed a standard form to be followed in making up a budget document. So far, different states have found it necessary to emphasize different features of the financial plan. Where detailed provisions on the form of the budget have to be written in the constitution, as is the case in Maryland, they have hindered rather than helped the making up of a concise and easily understood document. The development of the technique of properly presenting information in the budget document should not be hampered by constitutional provisions. Our budget experience up to this time indicates pretty clearly one thing: that the complete budget plan—all proposed expenditures and the means of financing them—should be and can be presented in a single-page statement, the remainder of the budget document to consist of supporting schedules to this statement. If the governor proposes expenditures in excess of the anticipated expendable income of the state, this fact should be clearly shown; and it should then be the duty of the governor to recommend additional means of meeting the proposed expenditures. Otherwise his budget plan will not be complete.

#### GOVERNOR TO SUBMIT APPROPRIATION AND REVENUE BILLS TO LEGISLATURE

The governor, at the time of submitting the budget to the legislature, is required to introduce a general appropriation bill containing all the proposed expenditures set forth in the budget and likewise a bill or bills covering all recommendations in the budget for additional revenues or borrowings by which the proposed expenditures are to be met. There are three very good reasons for this provision. When bills to carry out the budget plan are submitted with the budget, the legislature has something concrete to refer to its committee and to set to work upon; otherwise the legislature may be inclined to regard the budget merely as an administrative report and for that reason give little attention to its recommendations. By this procedure the governor is given an opportunity to set up in the appropriation

act whatever degree of itemization he thinks is necessary and to suggest the terms and conditions to be attached to the appropriations. Furthermore, if the governor proposes to expend more money than can be raised under the existing revenue laws, he should propose measures by which additional funds are to be raised; the legislature should not discuss and pass upon appropriations without considering, at the same time, the sources of income to meet them.

#### GOVERNOR'S APPROPRIATION BILL GIVEN PRIORITY IN THE LEGISLATURE

The legislature is required to pass upon the general appropriation bill and any emergency appropriations recommended by the governor before taking up any appropriation bills introduced by members of the legislature. This provision gives precedence to the budget program. It aims at bringing about early consideration of the budget plan by the legislature and at keeping the attention of the members of that body concentrated on the plan until it is finally acted upon. Emergency appropriations cannot be made for a longer period than the date when the general appropriation bill becomes effective.

#### LEGISLATURE NOT LIMITED IN ITS ACTION ON GOVERNOR'S PROPOSALS

The legislature is not limited in its action upon the general appropriation bill. It may amend this bill by increasing, decreasing, or striking out any of the items or by adding new items. As a safeguard against ill-advised action on the part of the legislature, either in changing the general appropriation bill or in passing special appropriation bills, the governor is given the power to veto, as a whole or in part, items in such bills. As a further check the legislature is not allowed to appropriate for any fiscal period in excess of the expendable resources of the state for that period.

Only the Maryland budget amendment and those amendments or laws which have been copied from it have placed restrictions upon the power of the legislature to increase the governor's budget proposals. Of the five states which adopted the Maryland provision, New Mexico and Nevada have eliminated it from their budget laws, Utah is dissatisfied with it and likely to eliminate it at this session of the legislature, and Indiana's proposed budget amendment (copied from Maryland) failed to pass the recent legislature a second time largely on account of this provision. West Virginia has the provision embodied in a

constitutional amendment. The experience of both Maryland and West Virginia on this point has not been very satisfactory. It would seem that such a provision is practically unnecessary in a state government where the administrative organization centers responsibility in the governor, as is proposed under the model constitution. If the legislature should appropriate more money than is necessary to carry on the activities of the government, the governor can prevent the expenditure of it since he is in complete control of the activities. The only need then for such a provision is to catch the appropriations that may be made for local purposes, the expenditure of which is not administered by the governor. In such cases the governor has the right to exercise his veto power and consequently prevent the appropriation from becoming law unless it is repassed by a two-thirds vote of the legislature, in which case the responsibility is clearly upon the legislature.

#### LEGISLATIVE PROCEDURE ON THE BUDGET

The legislature, which is to be a unicameral body, is required to hold at least one open session in its consideration of the budget at which taxpayers and the general public may appear and be heard on any of the budget proposals. One-fifth of the members of the legislature may require the governor to appear before the legislative body to explain the budget, or it may require the governor or his designated representative to appear before any of the legislative committees. This procedure is designed to give a minority group in the legislature a chance to criticize the budget plan and by this method to interest and inform the general public. The governor may voluntarily appear before the legislature and discuss the budget. Under other provisions of the model constitution he and his department heads are given seats in the legislature, but without votes. It is presumed that the legislative procedure which is used will be such as to give full publicity to the consideration of the budget at all stages in its passage through the legislature. It is intended that all budget problems will be handled by a single committee. This will tend to preserve the unity of the budget plan and will avoid the bad practice in a number of states where five or six legislative committees work independently on different phases of the budget plan at the same time.

#### INDEFINITE AND CONTINUING APPROPRIATIONS ELIMINATED

Finally, as a check against indefinite and continuing appro-

priations, it is provided that no money shall be paid out of the state treasury except in accordance with specific appropriations made by law, and that an appropriation shall not confer authority to incur obligations against it after the termination of the fiscal period to which it relates. This enables all accounts to be closed at the end of the fiscal period and a complete budget to be set up for the ensuing fiscal period. Appropriations for capital purposes which cannot be materialized within the fiscal period should lapse at the end of the period and new appropriations should be made for continuing the work. Indefinite and revenue appropriations should not be made, as neither can be properly controlled. All revenues should go into the state treasury and expenditures should be made only upon definite appropriations by the legislature. Continuing appropriations have recently been abolished by law or discontinued in practice by several of the states. Wisconsin is the most notable example of a state having a system of continuing appropriations. Such appropriations really amount to a means of endowing governmental agencies. Under a centralized and businesslike administration, state agencies do not need to be protected in this way to insure the prompt discharge of their functions.

## APPENDIX IV

### STANDARD BUDGET SECTION FOR CITY CHARTERS <sup>1</sup>

SECTION 1. *Annual Budgets.* Not later than six weeks before the end of the fiscal year, the city manager (or mayor) shall prepare and submit to the council an annual budget for the ensuing fiscal year. He shall submit the following documents to the council:

1. A budget document, containing the detailed estimates required by him from and furnished by the several departments and agencies of the city government.
2. A general appropriation ordinance, containing a summary of all proposed expenditures set forth in the budget document.
3. Revenue measures, if any, covering recommendations in the budget for additional revenues by which the proposed expenditures are to be met.

Copies of such budget document shall be printed and be ready for distribution not later than two weeks after its submission to the council, and a public hearing shall be held thereon before a committee of the council prior to action by the council on the budget.

SECTION 2. *Appropriation Ordinance—Transfers.* Not later than the beginning of the fiscal year the council shall pass an annual appropriation ordinance, which shall be based on the budget submitted by the city manager (or mayor). The total amount of appropriations shall not exceed the total amount of the estimated expendable income of the city. No liabilities shall be incurred by any officer or employee of the city, except in accordance with the provisions of the annual appropriation ordinance or under continuing contracts and loans authorized under the provisions of this charter.

At any meeting after the passage of the appropriation ordinance and after at least one week's public notice, the council, by a majority vote, may amend such ordinance so as to authorize the transfer of unused balances appropriated for one purpose to another purpose, to appropriate available revenues

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<sup>1</sup> From a tentative report of the Governmental Research Conference Committee, June, 1921. This Committee consisted of Benjamin Schwartz, Chairman, Yonkers, N. Y.; J. R. Crowell, Toledo, Ohio; D. A. Bandeen, El Paso, Texas; D. C. Sowers, Akron, Ohio; and Paul Eiel, San Francisco, Cal.

not included in the annual budget, or to propose additional revenue measures by which the current year's expenditures are to be met. The city manager (or mayor) shall, however, have the right to transfer appropriations up to \$200 within a department or division of the city government without such public notice or majority vote of the council.

### EXPLANATORY NOTE

The problem of present-day budget making relates not so much to the kind of information that should be supplied to the chief executive by his department heads, but to the clearing up of the confusion existing between the budget document proper and the appropriation ordinance. In most cities the lengthy and detailed budget document and the appropriation ordinance are one and the same instrument; in some, a document is prepared that is a cross between the two.

There is no place in a charter section for a detailed analysis of the information to be required of department heads. The science of budget making has advanced far enough to enable an executive to know what information is necessary before he can make up a proper budget. The budget section of the charter should be brief. The purpose of the section should be to fix responsibility for the making of the budget and for the control of expenditures. This can be accomplished by providing in the charter for two documents: (1) the budget document, the purpose of which is to supply detailed information, and (2) the appropriation ordinance, the purpose of which is to summarize the budget document for the fixation of responsibility and control.

Your committee is of the opinion that the appropriation ordinance should be passed by the council before the beginning of the fiscal year, instead of one month after the beginning of the year, as contained in certain charter sections brought to the attention of the committee. The budget and program of work should be completed before one dollar is spent for the new year. This would obviate the necessity of providing for temporary appropriations by the council during the first month until the budget is passed. In the matter of the transfer of funds by the council from one department to another during the year, your committee believes that a majority vote of the council is sufficient and safe for this purpose. It further believes in the right of an administrative transfer within departments by the chief executive of the city without the necessity of public notice or approval by the council, and believes that \$200 is a safe and reasonable limit to the exercise of this right.

There are other matters related to budget making which do not properly belong to this committee's section, but which should be provided for in other standard sections of a charter. These matters are:

1. Uniform fiscal year for cities, beginning with January 1.
2. Uniform political year for cities, beginning with some date before the budget is to be prepared. The incoming administration should begin tenure of office before the budget-making period starts, in order to gain the experience of making up the financial

program of the year, which ordinarily it does not have until a year after its inauguration. Furthermore, the provision herein recommended would do away with the possibility of an outgoing administration, hostile politically to the new administration, making up a budget and program of work and policies which would be binding on the incoming officers.



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